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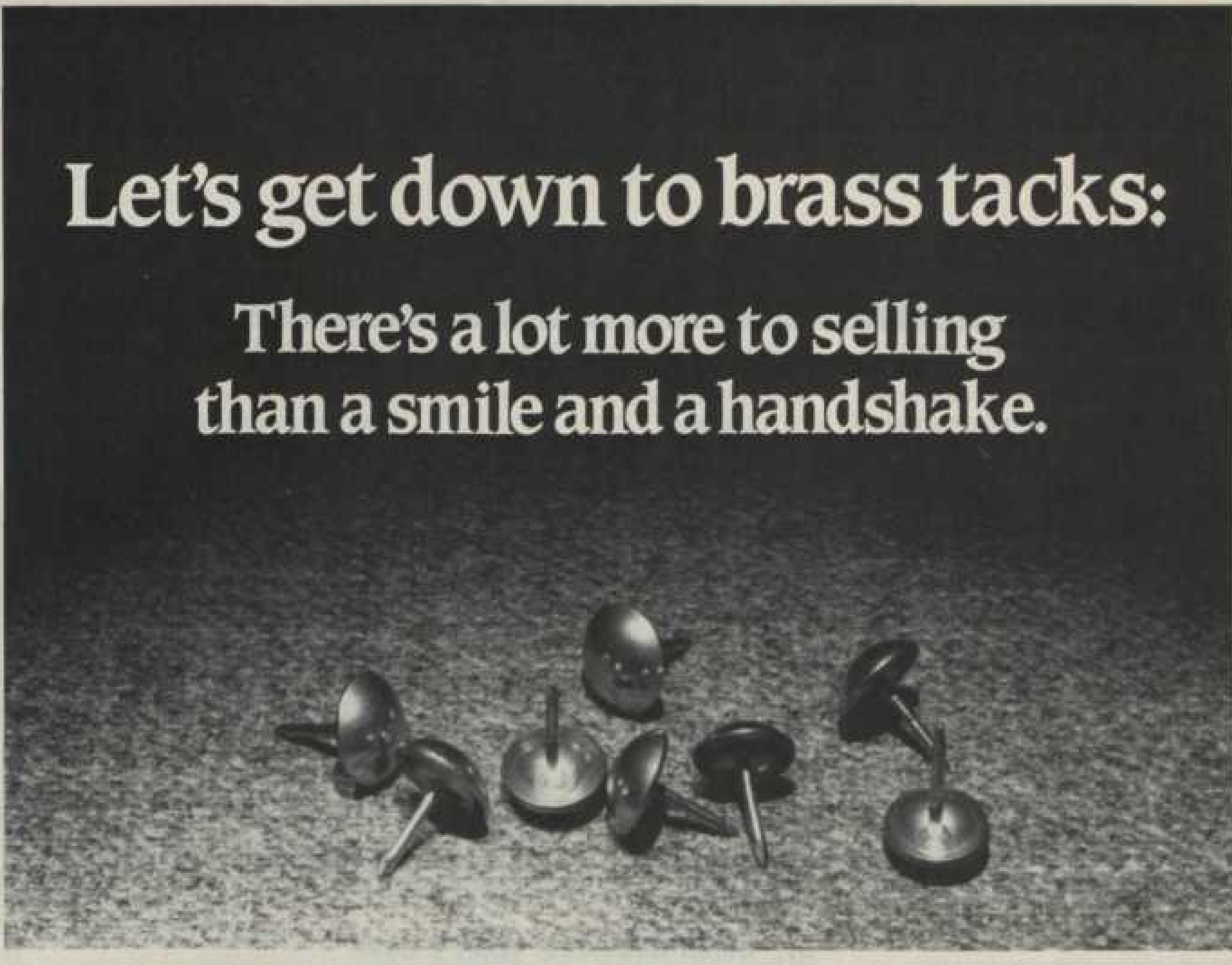

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Nation's Business

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THE NATION'S BUSINESS

The tax bill may hit many small businesses especially hard by scaling back, from 100 percent to 80 percent, the deduction for business meals and entertainment. (Page 14)

PHOTO: CAMPBELL & BOULANDER—WEST LIGHT

COVER STORY

Delegates to the White House Conference wait their turn at the microphone to comment on proposed recommendations. The 60 proposals in the final conference report emerged from two days of debate and amendments in 11 different topic discussion groups.

PHOTO: T. MICHAEL KEZA

The Cover Photos
A cross section of delegates: From top left, clockwise, John F. Mullins, Jr., president of Brandywine Transmission Service, Inc., Wilmington, Del.; Joseph Gibbons, chief executive of J&B Computer Product Center, Kalamazoo, Mich.; Elliot Hoffman, president of Just Desserts, Inc., a San Francisco maker of desserts; and Marilu B. Meyer, president of Castle Construction in Chicago.

Cover credits, clockwise from top left: Sal DiMarco—Black Star, Brian Masck, Robert Holmgren and Pat Cordell

DEPARTMENTS

MANAGING YOUR BUSINESS

Tests for identifying drug abusers are being used in business' war on employees' drug use. *(Page 18)*

Faced with fierce pressure to survive and growing customer demands, trucking companies are offering many new services to attract and hold customers. *(Page 53)*

PHOTO: TOM SOBOLIK—BLACK STAR

PHOTO: TOM TRACY

PEOPLE/PERSONAL

Caution and innovation have been the foundation of Walton Chapman's New Mexico building business. Once he had four employees. Now: 80-plus. *(Page 85)*

PHOTO: TONY O'BRIEN—PICTURE GROUP

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COMMENTARY

Forewarned Is Forearmed

By Wallace S. Hall

Your new venture research was correct. At the end of Year 1 of your new business, you generated profits and forecast good times. The question kept repeating itself in your mind, "Why didn't I do this years ago?"

Watch out! Trouble may be lurking only a monthly statement away. Erosion of your business may have begun just at the time you thought things were going best.

I know only too well—it happened to me.

Even after the long slide into bankruptcy, it took me more than a year to face failure objectively and understand how it had happened. After the embarrassment of delayed payrolls, the pain of disconnecting the phones and the rigors of bankruptcy filing passed, I was able to place the responsibility and blame firmly where it belonged.

I realized I am ultimately responsible—nobody else. I cannot blame it on lazy employees, unsympathetic creditors, unfaithful customers or insensitive bankers. And what happened to me is not atypical. I have heard a similar tale of woe from enough others that I can now draw a typical pattern of business failure based on mine and others' experiences.

I hope sharing this experience will help others avoid business failure.

When I began my business I worked at least 70 hours, 6½ days each week. Every day was an exciting challenge; each had a quiet, uninterrupted time when I studied, planned and thought.

I had an objective and a plan to achieve it. And I followed that plan.

From time to time, I was the only account executive, secretary, delivery person, bookkeeper, writer, manager and legal adviser.

When times got better and I could hire people, I carefully developed my staff with tender, loving care.

Initially, things went well—too well. I relaxed, eased up and began to get careless. It was just a little at first.

Several years passed. I no longer knew all my customers by their first names and was irked when some asked for me personally. Work was produced and delivered without my knowledge. I began going to more luncheon and dinner meetings than I should and wallowed in the attention civic and volunteer groups lavish on up-and-coming business people. Somewhere my company began an almost imperceptible downhill slide.

"Those who do not heed their own red flags may end up doing what I'm doing: starting over."

I spent far too much time making speeches, chairing fund drives and consulting on pie-in-the-sky ideas—for free.

My ego (former ITT Chairman Harold Geneen calls it "businesses' worst disease") killed drive, creativity and change within my organization. I no longer nurtured my staff, but took credit for their accomplishments.

At one point, I had not written a marketing plan in two years. Checks were signed—and authorized—by others. I was not disturbed when I arrived late for appointments (whatever my customers may have thought); after all, I was a busy man. Being available for decisions or input was no longer essential, because the department managers now ran my business.

Gross sales dropped along with profits, but I blamed it on "overall market conditions and economic indicators"—whatever they are. I now know that I was gradually going out of business.

If any of this sounds familiar, beware. Those who do not heed their own red flags, which appear first in cash flow statements, may end up doing what I'm doing: starting over.

"The most frequent pitfall is the 'I've made it' mind set," counsels Robert L. Andrews, Small Business Administration district director in St. Louis. "Businesses fortunate enough to be successful for two or three years can let success ruin them."

Perhaps you have heard that before. If you don't believe the management books, believe me. Take care of business first.

You must stay hungry. Remarry your work. Answer the phone for an hour or so each day. Call on potential clients. Spend time with the troops in the trenches. Meet with your customers individually. Learn how they use what you sell them. Ask what goods or services they need. Listen intently; they might need a new widget that you can give them before anyone else can. Make sure that every staffer knows his or her responsibility, is capable of fulfilling it and has the burning desire to make your business—and everyone should feel as though it is their business, too—the best it can be.

If you need money, don't dig your hole deeper by going to the bank. Every business can be trimmed at least 5 percent a year, usually from payroll, without losing quality or competence. If you have not cut costs in three years, you owe your firm a 15 percent increase in net profit. Review your sales pitch. Does it tell your clients what you can do for them? How much have conditions changed since you began? You may need updated ads.

Develop a formal work plan that is challenging, then strive to surpass it. Remember, performance is the only thing that counts. Of course, the most important thing is to organize yourself and *begin today* NB

Guest columnist Wallace S. Hall owned a St. Louis marketing and advertising firm from 1974 until 1985. He is now a free-lance writer.

COMMENTARY

Letters

Price Of Cost Cutting

In "Home Construction On A New Road" [August], Roger Thompson makes some general statements that present local government as being unfair to the contractors. As city engineer for Scranton, Pa., and as an active member of the Lackawanna Home Builders Association, I am able to see both the builders' and the municipalities' points of view.

Since our family's precast concrete business is very much affected by the skyrocketing costs of new homes, I am sensitive to the needs of the home building industry. Also, as a city official, I am aware of the problems that can be generated by poor construction practices and cutting corners.

I agree with Michael Shibley, of the National Association of Home Builders, that if a new technique works, it should be tried. But what works in Southern California may not work in Vermont. Precipitation, climates, soils and building materials are only a few variables that play a major role in how a particular system works. I want everyone to be able to afford a new home. But saving a few bucks while sacrificing quality is not my idea of a smart move.

John J. Luciani
Civil Engineer
Concrete Step Units, Inc.
Scranton, Pa.

I must disagree with conclusions you draw in "Home Construction On A New Road." Even if a builder can save $10,000 per dwelling by a relaxation of building codes, there is still an increase of approximately $60,000 in the average price of new homes today largely unaccounted for. When you consider that the savings you refer to are all due to cheaper construction methods, you find that there is still no plausible explanation for the dramatic increase in the cost of a house since 1968.

You report that many people today would rather live in more densely populated areas. While this may be the case, many people who live in sparsely populated areas enjoy it that way. They use the building and zoning ordinances of their towns to keep density down.

Edwin Levi
Englewood, N.J.

Teen Employment

Your magazine just took a nosedive in credibility in my eyes with "Where Are The Teenagers?" [August].

Readers tell us about the cost of home building, teen alternatives and home inspection.

You failed to mention that teens don't need or want to work today. Why should they when their parents give them everything they want, including cars, clothes and date money?

You barely mentioned the so-called disadvantaged youth. They can't work because it would add to family income. When their parents are on welfare, they don't want the welfare checks messed up. So they remain unemployed, and that continues to spiral our welfare costs upward.

Donald R. Johnson
President
A-1 Rentals
Greensboro, N.C.

As a placement specialist who has been helping senior citizens find work, I believe this older segment of the population represents a potential solution to the shortage of workers for jobs normally filled by teenagers. At Skills Available, a community service for older workers in Cleveland, we register hundreds of retirees, housewives and widows who are eager to return to work for a variety of reasons.

They seek not only entry-level work but also jobs requiring experience. Many of them are interested in part-time work because of Social Security limitations on earnings. Others want to supplement family income but prefer part-time work because of children or aged parents.

With minimal training, many of these older persons have the dedication to do as much on a 24- to 30-hour schedule as an inexperienced, less-reliable person on a 40-hour week. Jobs requiring someone on duty full-time can be shared, with two workers combining their hours to provide full coverage.

I know. Since retiring from a personnel job at the National Aeronautics and Space Administration, I have a 24-hour, three-day workweek at Skills Available; someone else has the rest of the week. This gives me plenty of free time to enjoy my retirement!

Clarence E. Forbes
Placement Specialist
Skills Available
Cleveland

More Than Just A Job

An associate gave me your August issue, and I'm sold. I have already sent in a card to subscribe to your magazine. I read the issue from cover to cover, something that I only do about 50 per-

COMMENTARY

Letters

cent of the time to the ones I pay for, and about 10 percent of the trade journals that are free.

I was favorably impressed with the commentary column by K.C. Mosier, "Assuring The Future." If his company was closer to where I live, I would apply for employment. We share the attitude that working for a company should be an enjoyable period in one's life.

Merle Lehman
Avon Lake, Ohio

More On Home Inspections

I would like to add to your "Direct Line" answer to B.G.'s question about home inspection services in the September issue. Realtors are reluctant to give out inspectors' names for reasons other than the one you gave in that column. If an inspector gives a report that later proves inaccurate, many buyers hold the agent liable for suggesting that inspector.

As a real estate agent, I do not consider it my job to call or even suggest an inspector. I tell buyers they should have an inspection done, but it is their responsibility to choose the company they wish.

Ronald Barker
Stark-Prescott, Inc.
Alvin, Tex.

A Major Exaggeration

When I read the contents pages of your August issue, I was concerned to learn about the congressional proposal for parental leaves up to 18 months! I was relieved to turn to pages 12 and 76 and learn that the proposal is for 18 weeks with a maximum of 24 weeks.

Johnnie Godwin
Gallatin, Tenn.

Send letters to Editor, NATION'S BUSINESS, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

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Business Outlook

Where's The Growth That Everybody's Been Expecting?

Second Half Economic Forecasts 1986

	Gross National Product	Consumer Price Index	Industrial Production	Disposable Personal Income
T. Rowe Price	3.5	3.2	4.2	2.2
Harris Bank	3.1	3.1	2.3	NA
First Boston Corp.	3.2	2.5	3.5	2.0
Wells Fargo Bank	2.5	3.1	1.8	1.9
Blue Chip Economic Indicators (average of 52 economists)	2.0	1.8	2.4	NA
U.S. Chamber of Commerce	3.2	1.6	3.4	2.1
Average	**2.9**	**2.5**	**2.9**	**2.0**
1985 Annual Change	*2.7**	*3.6*	*2.2*	*2.3**

*Revised July, 1986.

CHARTS: MARY CERMAK

The economy has been all dressed up for months but hasn't gone anywhere—and probably won't for the remainder of the year.

Optimists in the forecasting fraternity, including the President's Council of Economic Advisers, expect a strong fourth quarter, with growth in the gross national product of 4 percent or more. But they are now a minority.

Most analysts see little chance that the economy will climb out of its low-growth rut in the short run. Nearly all have lowered their sights from the 1986 growth rates they anticipated at the start of the year.

One of the most widely cited projections now, the consensus of 52 economists surveyed by Blue Chip Indicators, of Sedona, Ariz., is for a tepid 2 percent growth during the second half.

There is even increasing talk of a recession in the months ahead as mounting debt takes its toll on the economy.

But Richard W. Rahn, U.S. Chamber of Commerce, is more optimistic: He sees 3.2 percent growth. "I'm not saying that we are going to have a boom," says Rahn, "but these end-of-the-world scenarios just aren't going to happen."

Forecasters figured last spring that the GNP had a date with expansion.

The question is, where's the growth? How could the economy appear poised for rapid acceleration and then only sputter forward?

Expectations of growth were based on several widely held economic assumptions that, in this case, have proved inaccurate. The effect of low interest rates is the leading example.

Most economists thought that falling rates would put the economy on a fast track. During the housing and new car sales booms last spring, that appeared to be happening. But demand for homes and cars slowed during the summer—demonstrating, says Robert J. Genetski, chief economist of Chicago's Harris Bank, that lower interest rates are not necessarily the key to sustained growth. Actually, economists point out, rates remain at historically high levels despite the decreases (see chart).

A second often-repeated assumption was that lower energy costs would boost the economy as consumers transferred savings at the gas pump to the purchase of goods and services they could not otherwise have afforded. What many economists failed to take into account was the offsetting negative effect on the overall economy of the energy-related recession triggered in Texas, Oklahoma and Louisiana.

For some economists, rapid growth of the nation's money supply also seemed to set the stage for robust growth.

Historically, an expanding money supply has meant increased demand for goods and services. But not even this has led to economic acceleration, because much of the new demand has been met by imports, sending the U.S. trade deficit soaring.

Forecasters knew for sure that something had gone awry when the Commerce Department announced that growth in the second quarter clocked in at an anemic 0.6 percent, down sharply from 3.8 percent recorded during the first quarter. Many had anticipated growth in the 4 to 6 percent range.

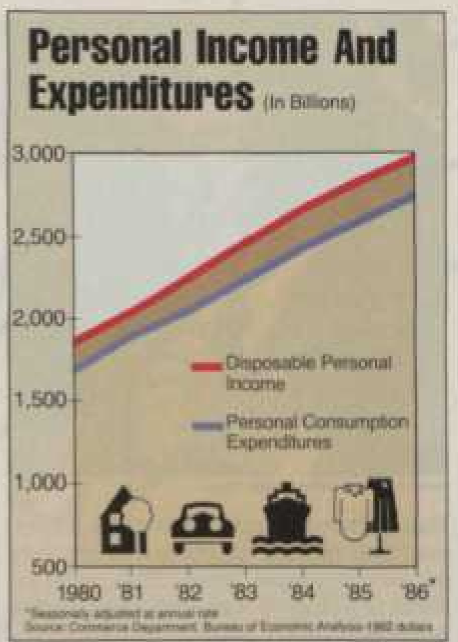
Conventional economic wisdom clearly failed to anticipate the slowdown. Its cause remains the subject of debate.

In hindsight, Genetski maintains that uncertainty over tax reform—now greatly lessened following House-Senate conferees' agreement on a reform bill—throttled growth. "The likelihood of lower tax rates next year means that the prudent businessman would say, 'Why not wait until next year?' "

Washington economists, who usually reflect the consensus of analysts nationwide, have a different explanation. They blame the U.S. trade deficit for siphoning strength from the economy. The solution is to boost exports. Accordingly, the United States has orchestrated a 28 percent decline in the exchange value of the dollar over the past 18 months, to make American goods more competitive on world markets.

Other economists contend that excessive debt is the real culprit in choking off economic growth. The national debt has doubled to more than $2 trillion

Despite signs of strong growth, economic expansion has faltered, and there are few expectations for a prompt turnaround.



since 1981. Despite congressional efforts to rein in spending, the deficit is expected to reach a record $230 billion or more when the 1986 fiscal year ends September 30. And consumer debt relative to income has risen to an all-time high.

Does hindsight help chart the way for the future? Perhaps. It is clear that the weight economists attach to tax reform, trade deficits and debt is a powerful influence on current forecasts, which range from boom to bust. The consensus, however, charts a middle course of continued slow growth for the remainder of the year.

The trade deficit's stubborn resistance to shrinkage is a key factor in these slow-growth forecasts.

Rosanne Cahn, an economist with First Boston Corporation, expects the trade deficit to exceed $150 billion this year, then fall back some $40 billion next year. The improvement would add 1 percent to the gross national product, she estimates.

"U.S. export price competitiveness has gained about 20 to 25 percent in the last year," says Cahn. "That's a big improvement." Conversely, imports have become more expensive, though not to the extent anticipated. Foreign manufacturers have dropped their profit margins to maintain their hard-won share of American markets. "But it doesn't look like they can do that a lot longer," adds Cahn.

Fewer imports should mean more American manufacturing jobs, says Thomas C. Heagy, chief economist of the Exchange National Bank of Chicago.

The lower value of the dollar means that American manufacturers can compete more easily for U.S. markets that have been eroded by foreign competition, he adds.

Reagan administration economists are somewhat more optimistic about shrinking the trade deficit than most private economists. This is a major reason why the Council of Economic Advisers is forecasting GNP growth of 4 percent in the second half of the year.

Why do some economists see a recession coming?

Says A. George Gols, an economist with the consulting firm of Arthur D. Little in Cambridge, Mass.: "I guess I take more seriously than many of my colleagues the four big Ds on the economic report card: the federal budget deficit, the trade deficit, consumer debt and foreign debt." In each area problems are mounting, says Gols.

While consumer spending has been one of the real bright spots in the economy this year, savings have dwindled to about 5 percent of after-tax income (see chart). "It will not take much disturbance in the economic scene to change consumer behavior and divert purchasing power from spending to paying off debt," tipping the economy into recession, warns Gols.

In contrast, Harris Bank's Genetski takes a more optimistic view. Once tax reform is in place, he says, "the economy has the potential to expand at an extremely rapid rate without having any inflationary implications."

The wide differences among forecasters are a sign of the times. Says Rahn: "I've never seen more divergence in forecasts about where the economy is going. But we've never had a parallel situation."

Washington Roundup

The Tax Bill: "Unknown Country"

Presidential adviser Beryl Sprinkel says the tax bill, if enacted, will provide a continuing stimulus to economic growth.

PHOTO CYNTHIA JOHNSON—GAMMA LIAISON

Members of Congress, economic forecasters, tax lawyers, accountants and business people agree on one thing about the historic tax reform bill due for final action in Congress—it would bring about a massive change in the way American businesses conduct their financial affairs.

But, beyond that, there is no consensus on whether the bill would help or hurt the overall economy and individual companies.

"We can make estimates, but really we're off the charts, in unknown country," says Gregory Ballentine, an economist at Peat, Marwick, Mitchell & Company, an accounting and consulting firm.

Some say the bill's fundamental effects won't be known for some time. It is so sweeping, they say, that there are no precedents—and no computer forecasting models—for the new economic "playing field" it would establish. The bill's drastically lower maximum rates and diminished credits, deductions and exemptions would have varying impacts on different industries and companies.

The measure would slash the top tax rate on corporations from 46 percent to 34 percent and on other types of enterprises, such as sole proprietorships, from 50 to 28 percent. To prevent government revenues from diminishing, the bill would eradicate a long laundry list of business tax preferences, including such fundamental items as the investment tax credit, retroactive to Jan. 1, 1986.

Many believe that the bill would increase savings and investment after the low tax rates took effect. (As approved by House and Senate conferees, corporate rate cuts would go into effect starting next July 1, with most individual rate cuts beginning 3½ months earlier.) Additional savings and investment, they say, would force down interest rates and, in turn, spark economic growth.

Treasury Secretary James A. Baker III compares the bill to a 1981 measure that reduced marginal tax rates 25 percent and ignited an economic recovery of record proportions. "This new reform is going to have the same consequences," Baker says.

The legislation would increase economic growth one quarter of 1 percent every quarter for the next six years, according to Beryl Sprinkel, chairman of the Council of Economic Advisers.

Reactions to the legislation differ among representatives of various industries, whose traditional tax preference items fare differently under the bill. In general, those in capital-intensive corporations such as steel and auto makers are unhappy about the bill, while firms like small service businesses favor it.

In general, the compromise bill would increase corporate taxes about $120 billion over five years, compared with a $178 billion increase proposed by the House bill and a $93 billion increase called for by the Senate. Depreciation modifications approved by conferees would cost business only $11 billion over five years, compared with more than $40 billion under the House bill.

However, the compromise bill would tax corporate and individual capital gains at regular income tax rates, rather than at maximums of 28 percent and 20 percent, respectively, as they are under current law.

Paring PAC Power

With the summer recess two days away and the Senate preoccupied with budget and tax matters, Majority Leader Robert Dole (R-Kans.) shocked Congress watchers by bringing up a proposal from Sen. David L. Boren (D-Okla.) to sharply weaken the punch of political action committees.

The controversial proposal, attached by a 69-30 vote to an unrelated nuclear waste measure still before the Senate, would:

- Lower contribution limits on individual PACs from $5,000 to $3,000 per election.
- Limit the amount that candidates may accept from all PACs. The limit for House candidates in most elections would be $125,000. The limit for Senate candidates would be $35,000 per election district in their states, with a minimum of $175,000 and a maximum of $750,000.

Boren and other backers of the proposal charge that PACs exert too much influence over members of Congress and cause large increases in campaign costs.

PAC supporters counter that these committees of businesses, unions and trade and professional associations merely consolidate and make more effective the voluntary contributions of about 4.5 million individuals.

When In Trouble, Tax Business

When Congress needs money for such things as a new or expanded benefits program or deficit reduction, it simply taxes business.

That may seem like hyperbole, but it is not far from political reality. Action taken this summer by the House Ways and Means Committee supports the contention.

Just prior to adjourning for its August recess, Ways and Means was hav-

Dealers call them "exotic."

The truth is, they were born free and destined to live free.

Wildlife. Animals like monkeys, skunks, ferrets, ocelots, birds and lions. They may be beautiful and gentle when young, but they do not stay that way. When deprived of freedom they may sicken and die, or become psychotic, aggressive and dangerous.

Freedom-loving people don't buy and imprison "exotic" animals. These friends were born to be free. Please let them live that way.

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A non-profit organization. Your membership is invited. Those who make a tax-deductible contribution of $25 or more will be sent the attractive 24" x 36" poster, entitled Extinct is Forever.

WASH/PK 2

A Business Health Cost Treatment With No Side Effects.

To reduce swelling employee health care costs, businesses have often had to suffer the side effect of reducing benefits. And that might be bad medicine.

But now there's Provident Preferred – a health care benefit program that's designed to provide quality care and cut costs, not benefits.

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Observers are expecting some positive business effects from the tax bill; Congress loves to tax business; proposed limits on PACs.

ing difficulty drafting a 1986 reconciliation bill.

Congress must pass such measures to reconcile actual spending with its budget resolutions. It is a painful exercise, because spending is almost always over budget, and as a result programs must be cut or taxes increased.

The solution to Ways and Means' $2.5 billion a year problem seemed simple—tax business.

By a 19-14 vote, largely along party lines, with Democrats on the majority side, the committee endorsed extension through 1989 of an increase in the federal jobs tax scheduled to expire Dec. 31, 1987.

The tax increase is two tenths of 1 percent—or $14 per employee—of the federal unemployment compensation tax rate.

It was enacted in October, 1977, to pay off the debt—which was $9 billion at its peak—of the Extended Unemployment Compensation Trust Fund.

Under the 1977 action, the extra tax is to expire at the beginning of the calendar year following retirement of the debt.

The Labor Department estimates that the debt will be retired by next April. If the extra tax is allowed to expire, the unemployment compensation tax rate will revert to an average of 5.9 percent, or $427 per employee.

The tax rate varies varies from state to state, depending on the extent of each state's unemployment.

The Ways and Means proposal is now being considered by a House-Senate conference committee.

A Senate-passed reconciliation bill would allow the unemployment compensation tax increase to expire on schedule.

THE NATION'S BUSINESS

Small Business Report

Small business unhappiness with the tax reform bill; privatizing federal employees and services.

Tax Reform's Varied Impact

The tax bill may hit many small businesses especially hard by scaling back, from 100 percent to 80 percent, the deduction for business meals and entertainment. "Entertainment is their form of advertising," one accountant says of such small firms.

The complexity of tax reform legislation makes it difficult to generalize about its effects on the nation's 14 million small businesses. There will be winners and losers. But no business will emerge untouched by the most sweeping tax legislation in more than 50 years.

Tax rates will drop, but the bill also eliminates a number of business tax benefits. Overall, the bill—some provisions could be changed when it gets final congressional approval—raises business taxes $120 billion during the next five years. Though no one has calculated how much of that would come from small business, many owners of small firms are worried.

The bill clearly was unpopular with most delegates at the White House Conference on Small Business, which convened in Washington two days after a Senate-House conference committee approved the legislation. Delegates were particularly upset about the elimination of the investment tax credit and the ending of special treatment of capital gains.

A resolution asking Congress to reconsider the bill's impact on small business before ratification received 947 votes from the 1,620 ballots cast, just short of the two-thirds majority needed for approval.

The tax bill "is going to be horrendous" for small business, says delegate Rexie A. Lightsey, a Sylacauga, Ala., motel owner. "We don't like it."

Despite the negative reception the bill received at the conference, accountants point out features of the measure that would be beneficial to small business.

The leading pro-small business feature is retention of progressive tax rates on profit, says Gerald Portney, a partner in the Washington office of the accounting firm of Peat, Marwick, Mitchell & Company.

Under the bill, the maximum corporate tax rate is 34 percent, down from the current 46 percent. The rate is 15 percent on income of $50,000 or less, 25

PHOTO: CAMPBELL & BOULANGER—WESTLIGHT

percent on income between $50,000 and $75,000, and 34 percent on income over $75,000. Under present law, the rate is 15 percent for $25,000 or less, 18 percent for $25,000 to $50,000, 30 percent for $50,000 to $75,000 and 40 percent for $75,000 to $100,000.

Owners of unincorporated businesses would be taxed at the top personal rates of either 15 percent or 28 percent, down from a top current rate of 50 percent. The sharp drop in top personal rates would lower taxes for some small business owners but would not offset the loss of numerous tax benefits for others.

"You can't tell until you run through the numbers whether it's a plus or a minus," says Stephen R. Corrick, a partner in the Washington office of the accounting firm of Arthur Andersen & Company.

Scaling back the deduction for business meals and entertainment to 80 percent of their value from 100 percent would hit small business people particularly hard, says Corrick. "Entertainment is their form of advertising to a great extent," he explains. "They don't have the money to advertise in magazines or billboards to generate public awareness of their products. They go out and meet people."

Says Portney: "It's going to take a while for this to be assimilated. I suspect that those who don't do any early calculating are going to get some surprises when they start filling out their tax returns."

Going Private With Federal Jobs

Borrowing a page from recent British history, the nation's chief personnel officer has proposed a plan to help shrink the federal deficit and spur business growth. It would entice federal workers to become co-owners of new, private companies that in turn would provide federal services at reduced costs.

Constance Horner, director of the Office of Personnel Management, says her proposal could save the federal gov-

Constance Horner, director of the Office of Personnel Management, is pushing a plan for converting some federal activities into private enterprises.

PHOTO: T. MICHAEL KEZA

ernment billions of dollars a year. Government experience with hiring private contractors shows that many services can be provided 30 percent cheaper by the private sector.

Nevertheless, weeks after the OPM chief unveiled her idea before a business audience at the U.S. Chamber of Commerce, it still is unclear whether her privatization proposal will take root or wither from neglect.

Horner pins her hopes for the proposal on reaction from the business community. "It cannot go unless the business community makes it go," she says.

To date, business groups have offered only polite interest. "It hasn't been positive reaction or negative reaction," says Frank Sellers, head of the Business Alliance on Government Competition, before which Horner floated her trial balloon. "I think the real reaction is found in continued interest. It's not being ignored; that would have been the death of it."

Leaders of federal employee unions have expressed skepticism. But no group has taken a formal position.

Says Robert Tobias, president of the National Treasury Employees Union: "I object to the assumption that the private sector can automatically do these jobs cheaper than government employees." A spokesman for the National Federation of Federal Employees echoes that thought, adding: "The General Accounting Office has said on numerous occasions that the savings you're supposed to get [from hiring private contractors] don't always materialize."

A spokesman for the American Federation of Government Employees tiptoes around the issue, saying the union wants to study the idea.

Reaction on Capitol Hill has been spotty. "The little reaction we've received has been favorable," says Thomas J. Simon, OPM's associate director for administration.

But an aide to Rep. Gary L. Ackerman (D-N.Y.), whose Post Office and Civil Service subcommittee would hold hearings on Horner's proposal, says it raises more questions than it answers. "The congressman is instinctively skeptical of attempts to privatize federal jobs," says the aide. As for the purported savings to be realized if the proposal is adopted, the aide notes that "every comparison I've read about wages says that federal wages lag behind private enterprise."

Horner says her proposal—the Federal Employee Direct Corporate Ownership Plan—was inspired by privatizations in Britain, where employees have purchased up to 96 percent of the shares in government-owned enterprises since 1979. British Petroleum, British Telecom and British Aerospace are among the companies that have gone private.

Though the U.S. government owns far fewer major business operations, the Grace Commission reported that the government could save $7.39 billion over three years by shifting 500,000 jobs to the private sector.

Frequently mentioned potential targets for such privatization include military commissaries, the Government Printing Office, air traffic control operations, airports, the Tennessee Valley Authority, parts of the Coast Guard, and data processing, building maintenance, car pool, public information and accounting activities.

Horner's proposal would work this way: An agency or group of employees would identify an activity to be conducted by a new private company. Up to 49 percent of the stock in the company would be given to the former federal employees. The majority share would be sold to the highest private bidder, with the government receiving the revenue.

The newly formed company would receive the same amount the government had been spending for the service for a limited time, perhaps three years. Then the contract would be re-evaluated and awarded competitively.

"We don't think there are any obstacles that can't be overcome," says OPM's Simon.

Business' War On Drugs

By William Hoffer

Drug abuse is alien to someone like Marvin Kaplan, who does not even smoke cigarettes and may take a social drink once a year. But the scourge of illegal drugs has invaded his small business.

"I have an ongoing problem with a nice young guy who is doing nothing but destroying himself," says Kaplan, owner of Abbott Electrical Construction Company, which has 20 employees and annual sales of $4 million.

The employee was a teenager when he joined the Skokie, Ill., company and had an exemplary work record over the next 10 years. He made no secret of his off-the-job use of marijuana and other "soft" drugs, but Kaplan assumed it was a passing phase.

"I overlooked it," he says.

Then the man's job performance began to lag. He was frequently late for work. On occasion, he failed to show up at all, calling in with dubious excuses in the afternoons.

Kaplan, 47, had assumed a fatherly attitude toward the younger man, and that had a result that might be out of the question in a larger company. "If this were IBM, I'd just tell somebody to take care of it," Kaplan says of his problem with the worker. "But I always decided to give him one more chance. I must have fired and rehired him 20 times."

Finally, the employee admitted that he had developed a $100-a-day cocaine habit and had even snorted the white powder on the job. But he is still on the payroll. Kaplan is giving him an umpteenth chance, hoping that the man's current claim that he has licked the habit will prove to be true.

"I want to help him," Kaplan says. "But I don't know what to do. I wish they'd lock up all the idiots who are making this stuff available."

His anger is shared by employers in businesses small and large across the country. They are facing one of the most insidious problems they have ever come up against—widespread, growing use of drugs in the workplace.

Bruce Wilkinson (left), president of Workplace Consultants, discusses a drug abuse program, being launched at Fowler Electrical Contractors in Atlanta, with company executive Derrick Fowler and Holly Loeffler and Mike O'Rourke.

No segment of American society can do a better job of curing the drug sickness than employers. Here is why, and what they can do.

Procedures for identifying drug users are the subject of sharp controversy that centers on testing methods. Urine analysis (right) is the cheapest method. Confirmation testing is best done using gas chromatography/mass spectrometry (left), which can detect molecular "fingerprints" of drugs. Employers regard these more expensive tests as insurance when they decide to move against a drug-using employee.

PHOTO: COMPUCHEM LABORATORIES

PHOTO: TOM SOBOLIK—BLACK STAR

The drug crisis in American society as a whole poses many dangers. For the unwitting employers of drug abusers, there are special perils. They include theft of company property to support addiction, poor productivity, recruitment of other workers to drug use, high absenteeism, costly mistakes, accidents and actions that could expose the company to lawsuits or even criminal charges.

According to the most recent goverment estimate, the annual economic cost of drug and alcohol abuse in America is $140 billion, more than double the 1977 figure. Costs borne by business are a substantial part of the total.

An estimated 10 percent of the American population uses illegal drugs more or less regularly. Assuming that the work force conforms to the overall pattern, more than 10 million workers could be regular users of drugs.

Most may consider themselves so-called recreational users, but many such users will eventually become increasingly involved, requiring continuing chemical intake to get through the workday. And the heaviest users, who often turn to selling drugs to finance their own habits, find the workplace a convenient source of new customers.

A report based on an analysis of known drug use at a dozen major American corporations provides a computer profile of a typical recreational user in the work force. It says he or she was born between 1948 and 1965 and:

- Is late three times as often as fellow employees.
- Asks for early dismissal or other time off 2.2 times as often.
- Has 2.5 times as many absences of eight or more days.
- Is five times more likely to file a workers' compensation claim.
- Is involved in accidents 3.6 times more frequently than other workers.

A survey of drug users seeking help in dealing with their habit provides another chilling insight into the impact of drugs on the job. Surveyed were drug abusers calling a hot line, the 800-COCAINE number of Fair Oaks Hospital in Summit, N.J. Of those responding:

- 75 percent said they had used drugs on the job.
- 64 percent admitted drugs had adversely affected job performance.
- 44 percent said they had sold drugs to other employees.
- 18 percent said they had stolen from co-workers to support their habits.

And 39 percent even said they feared pay raises because they believed more money would lead to an intensification of their drug problems.

Given the widespread drug use in so-

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ciety, it would be prudent for employers to assume that no business is immune from such employee difficulties. Because of the pernicious nature of addiction, it is also a good bet that any business with a drug abuse problem will, in the absence of effective countermeasures, see it worsen over time.

One reason for a sudden surge in serious drug abuse is the emergence of a relatively inexpensive and highly potent form of cocaine known as "crack," which is smoked with a specially designed pipe. Robert Byck, professor of psychiatry and pharmacology at the Yale University School of Medicine, says crack "presents a problem of exploding dimensions." Crack is not only cheap and plentiful, he says, but it may be more addictive than other forms of cocaine.

"The extremely pleasurable nature of the experience, which is often followed within minutes by a dysphoric crash, results in a rapidly established addiction," he says.

Arnold M. Washton, research director for the Fair Oaks Hospital hot line, says: "A breakdown of traditional taboos against nonmedical drug use in the '60s and '70s seems to have contributed to the current epidemic of drugs on the job, as the baby boomers have grown from adolescence to adulthood and have taken their drug-oriented lifestyles and acceptance of drugs into the workplace."

The availability and use of an assortment of pills—amphetamines, barbiturates, tranquilizers and hallucinogens—adds to the overall problem confronting employers.

However, employers do not have to stand by idly while costs go up and profits fall because of drug abuse among employees.

Business, personified by company officials with hiring and firing authority, has a better chance for success in fighting drug abuse than any other segment of American society, experts say. The reason, they say, is what business can do to reduce demand for drugs.

Since the increase in use of illegal drugs began in the 1960s, the counteroffensive by law enforcement authorities has focused on cutting off the supply. Major distributors have been targeted, and there has been an effort to eradicate the source—plants that are the raw materials for illegal drugs.

But the demand for drugs is so great, and the business is so lucrative—$110 billion a year in gross revenues, according to a congressional investigating committee—that other distributors quickly replace those arrested.

Marvin Kaplan, president of Abbott Electrical Construction Company, Skokie, Ill., says: "I wish they'd lock up all the idiots who are making this stuff available."

PHOTO: RICHARD DERK

As for the raw materials, the two most widely used illegal drugs—marijuana and cocaine—come from plants grown almost entirely in foreign countries. Because of that, the U.S. effort to thwart their cultivation—while more visible of late—has been limited. An estimated 2,700 shipments of illegal drugs enter this country every day.

As a result, the focus is shifting toward shrinking the ranks of customers to the point where drug sales would no longer be worth the effort. Under proposals from President Reagan, members of Congress and experts on the causes and prevention of drug abuse, this would be achieved through education, treatment, voluntary compliance and economic pressures, along with stepped-up efforts to curb supply.

Business is gearing up rapidly for the antidrug battle. "Businesses are doing more than any other sector to combat the use of illegal drugs in society," says Bruce Wilkinson, president of Workplace Consultants, Inc. The New Orleans-based consulting firm advises companies on ways to cut losses from employee theft and health hazards.

To understand why business has the potential for being more effective than any other force in turning back the drug invasion requires an understanding of the nature of drug abuse.

Drug abuse is, primarily, a disease of denial. Those affected refuse to admit—even to themselves, in many instances—that they have a problem. Most manage to maintain at least a semblance of normal work, family and social life even as their drug dependency is intensifying. Relatively few run afoul of the law. Only a serious crisis will force them to admit the truth, and that crisis is far more likely to result from economic pressures than from the threat of criminal prosecution.

"Every expert to whom we have talked says that the threat of losing a job seems to be the most effective means of getting a person to face the problem," says Jim McGregor, public relations director for Bath Iron Works in Bath, Me.

The threat of discharge is among many alternatives available to an employer who discovers a drug problem on the job. The options range from surveillance to education programs designed to deter use. Experts say managers should remember, however, that strategies most often discussed fall into various categories of legality and effectiveness. Each employer must determine the preferred lines of attack and—this is essential, experts say—formulate and proclaim a clear, company-wide policy.

A good starting point, experts say, is to recognize that it is far easier not to hire a drug abuser than it is to fire an employee who has become one.

Procedures for identifying drug users are the subject of a sharp controversy that centers on laboratory tests—primarily, analysis of urine samples—to determine the presence of drugs in the body.

Should employers have the legal right to test job applicants and current employees in search of physical evidence of drugs in their systems?

There is comparatively little objection to the idea as far as job applicants are concerned. After all, if drug testing is required, the potential employee has the option of submitting to the test or declining the job offer.

But it is a horse of another color when an employer seeks to test present employees hired under an agreement, written or verbal, that did not address the question of drug testing. There has been heated debate on the issue with labor unions at some companies.

Bath Iron Works is one arena for this debate. Says McGregor: "It was foolhardy to think that we didn't have a problem as great as anyone else." The company in 1985 began requiring that all job applicants undergo urine tests for the presence of drugs. There was no union objection.

During the first year, 164 applicants were tested, and 14 showed positive for one or more of 20 drugs. "Our trends for '86 show that the numbers are declining," McGregor says. "We think the word is getting out that if you come to Bath, you're going to be tested."

Trouble with organized labor began after Bath Iron Works announced last February that all current employees, from the most junior blue-collar worker to the president of the company, would be subject to testing "for cause," or even on a random basis. Locals of the Maritime and Shipbuilding Workers Union argued that the policy was a matter for collective bargaining.

In other complaints about mandatory drug testing, civil liberties groups, as well as unions, have charged that there is no guarantee of accuracy of tests that may determine whether a person loses a job. They cite a study by the Center for Disease Control, a U.S. Public Health Service agency, that found that some laboratories were in error two thirds of the times they reported evidence of drugs in samples checked.

Does this mean that businesses that require tests automatically risk making false accusations of drug use? Not at all, says Michael A. Terretti, director of clinical marketing and sales for CompuChem Laboratories, a drug testing firm based in Research Triangle Park, N.C. He points out that the trend toward employee tests has brought into the field many new companies with varying degrees of competence.

A drug test, Terretti says, must be practical and sure. He advises a two-step procedure:

1. Screening, which includes a variety of laboratory tests, costing $10 to $25 per sample, that can be performed on urine. These tests signal the possible presence of cocaine, marijuana and many other drugs.

2. Confirmation, which "can turn suspicion into fact." The surest test is gas chromatography/mass spectrometry, which can detect the molecular "fingerprints" of drugs. A sample of urine, moving through a column of absorbent material, is vaporized, separat-

Bath Iron Works in Bath, Me., has been a leader in fighting the drug problem. Says Jim McGregor, director of public relations: "The threat of losing a job seems to be the most effective means for getting a person to face the problem."

PHOTO: DEAN ABRAMSON

ing compounds according to their chemical and physical properties. Then molecules in the compounds are broken down into electrically charged ion fragments. No two fragment patterns are alike. These tests are accepted in court as legal evidence. Although the cost is $25 to $100 per test, many employers view the tests as worthwhile insurance when they decide to move against a drug-using employee.

In addition to questioning the reliability of drug testing, opponents charge that mandatory tests violate strictures against unlawful search and seizure. Proponents of testing counter that an employee's civil rights do not extend to endangering the safety and welfare of others.

Courts and arbitrators seem to be moving toward the latter position.

When a company that decides to launch a drug testing program has a labor union, the union often argues that the matter is one for negotiation.

A key point in deciding the issue is whether the testing is viewed as a punitive measure against the 10 percent of the work force that might be using drugs or as a measure to protect the other 90 percent. The company can argue that the testing is a safety measure for all employees and can be implemented independently of the collective bargaining process. When company-union negotations at the Bath shipyard stalled, the company began a unilateral policy of testing for cause. The union took the case to arbitration.

The first drug test was administered to a worker who had been involved in an accident and wanted to—and did—exonerate himself from any suspicion that drugs were a factor. The incident was an auspicious beginning for the program—it emphasized the positive aspects of drug testing from the employee perspective.

The arbitrator, Dean Eric J. Schmertz of the Hofstra University School of Law, ruled in July that the company policy was reasonable and that Bath had the right to implement it outside a labor-management agreement.

In addition to testing, antidrug strategies pursued by employers include aggressive investigations. When United Grocers, Inc., a wholesale food distributor based in Portland, Ore., learned of a productivity and morale problem on a 20-employee night shift in a warehouse, it ordered an investigation.

The assignment went to the company's loss prevention director, Robert Harris, who had spent 10 years in police service before joining United in 1978. He sent a private detective to the warehouse to pose as a new nighttime employee. The detective was able to buy a small amount of cocaine his second night on the job and, over the next three months, to document on-the-job use of cocaine, alcohol and marijuana.

When the overworked local police declined to act on the ground that the incidents were too minor, United Grocers staged its own "drug bust."

Three employees were fired, two were suspended and one got a warning. Though the actions "cleared the air," Harris says, he was well aware that they would not eliminate the drug problem permanently.

He and other managers used the incident to lobby company officials to establish an employee assistance program to help drug and alcohol abusers before they reached a crisis point.

EAPs, in operation at many companies throughout the country, provide counseling to workers outside the job environment. The programs are administered by trained therapists and other professionals.

The proposal to start one at United Grocers was rejected on the ground that the 1,200-employee company was too small to justify an EAP. Two years later there was another drug problem on a night shift in the warehouse. Because of the previous experience, workers were wary of new employees, and it took seven months for an undercover operation to succeed. This time, five employees were fired, two quit and three were suspended. United Grocers then established an EAP.

About half of all EAP visits are initiated by employees, and the other half result from supervisory action. In advising companies on EAPs, says Workplace Consultants' Bruce Wilkinson, "we stress that the supervisor's job is to document, not diagnose." The documentation consists of establishing a record of declining job performance, a rise in the number of days of reporting late or not at all, a drop in productivity and an increase in the number of accidents caused by the worker.

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Robert Harris, security chief of United Grocers, Portland, Ore., lobbied to get his company to establish an employee drug assistance program.

PHOTO: DAVID WEINTRAUB—BLACK STAR

tum: Contact the EAP or lose your job. The employee usually chooses the former option, meeting on a confidential basis with a professional counselor.

Once a company determines what procedures it will use to detect the presence of drugs and the penalties it will impose, experts say, it must establish a policy that applies equally to every employee—including the boss.

That policy should unequivocally state, they say, that possession, concealment, transportation, promotion or sale of illegal drugs is prohibited on all company premises, and it should also specify when and how various detection procedures will be used and what penalties will be imposed.

Some employers may take a hard line and fire an employee upon the first offense. Others may choose a range of penalties beginning with a reprimand and moving to discharge after repeated offenses. Whatever the consequences, the employee should be allowed no chance to plead ignorance, experts say.

With a formalized policy, management can present a clear ultimatum to people coming on the payroll—agree to the company's policy on drug abuse or look elsewhere for a job.

Bringing present employees into the picture may be a bit trickier, but it is not difficult, says consultant Wilkinson, if it is done properly.

Care must be taken, he says, to frame the company policy so that it will stand up under a court test if challenged by an employee who is disciplined. That is one reason it must apply and be applied equally to everyone in the work force.

A copy of the company policy statement should be placed in each employee's pay envelope, Wilkinson says, to protect a company in a case where an employee is discharged and later states that he was unaware of the rules. Wilkinson also advises having employees sign a form saying that they understand the policy.

Whatever the approach, Wilkinson sums up, employers should remember that they have the ultimate weapon. "Drug abusers will give up their cars, their homes and their families, and risk jail, before they will give up drugs," he says, "but the threat of losing a job is usually the one thing that gets through to them." NB

To order reprints of this article, see page 81.

MANAGING YOUR BUSINESS

Competing In Japan

By Karen Berney

Water filtration pumps hardly seem like an American product that should sell well in Japan. The technology is mature, and Japanese manufacturers are just as adept as their U.S. counterparts at turning them out. Yet Meridien Group, a Los Angeles export management company, this year will supply Japanese industry with $1 million worth of water filters from half a dozen medium-sized U.S. companies.

Water filters are just one of many industrial products in which "American technology, design and price are more acceptable to the Japanese than Japan's," says Meridien Group President Charles Nevil. "In some instances, I am actually selling U.S. goods in Japan for less than it costs to make them there." Where America has a market to justify high volume production and Japan does not, "we have the advantage of economies of scale," he says.

Exports of water filters, of course, are not going to offset the massive U.S. trade deficit with Japan that the Commerce Department warns could hit $60 billion this year, with U.S. exports to Japan stagnant at $22 billion. But Nevil's success proves American companies can compete in Japan if they have an edge in price, quality or design.

The popular notion that "if the Japanese make something themselves, we cannot sell it to them, is an unfortunate myth," says Nevil. "The reality is that you do not need to offer a proprietary technology or the lowest price to succeed in Japan."

More than 2,300 U.S. companies are operating in Japan, primarily through subsidiaries or in joint ventures. They sell everything from plastic kitchenware to computer software. But their sales have been neither quick nor easy. Their secret, Nevil says, is willingness to sweat it out in order to create a profitable niche.

While a direct presence—a branch office, subsidiary or joint venture—is the best way to foster personal relationships that give the foreign firm a fighting chance, few small or medium-sized businesses can justify investments of that magnitude, agree experienced traders. But that does not mean small businesses should write off Japan.

One approach is to work directly with a Japanese distributor. To Sandy Kaye, president of Porta-Bote International, Mountain View, Calif., the key to smooth sailing in Japan has been a distributor "with the wherewithal to market my product."

Soho Beverages, Inc., of New York has a winning product among Western-oriented Japanese yuppies. The firm went slow: It test-marketed its high-priced soft drinks in trendy Tokyo restaurants and then expanded into local grocery stores.

PHOTO: CLAUDE CHARLIER—BLACK STAR

Kaye knew he had a perfect product for Japan. Storage space is at a premium in Japanese homes, and Kaye reasoned that the Japanese, who love fishing, needed his boat—an $895 motorized or sailing craft that folds to four inches flat and can be carried on top of a car. But as a one-man operation doing about $400,000 in sales a year, Kaye could hardly devote full time to Japan.

So he turned to the Commerce Department's International Trade Administration, which helped locate a Japanese distributor willing to test market his boat.

Like most imported consumer products, the craft first had to clear government safety tests. Kaye describes the tests as "a veiled attempt to reject the Porta-Bote" and to protect domestic manufacturers. He says the Japanese Coast Guard dropped a boat filled with 600 pounds of concrete 20 feet into the water. The boat was examined for structural damage and then, to the amazement of the distributor, who was snapping pictures, was subjected to the same test two more times.

The polypropylene boat held together. And—ironically—the distributor used the photos to convince retailers of its strength and durability. By 1981, Kaye was selling more than 500 boats annually to Japanese consumers.

But Kaye's first distributor reached its performance limits, and he shifted early this year to Japan's largest distributor of sporting goods. Kaye now anticipates annual sales of 2,500 units, which would account for 30 percent of Porta-Bote's revenues.

"If your business is very small, your best shot is to work with a skilled distributor who believes in your product and has the capability to move it," advises Kaye. And, despite what many Americans think, the Japanese respect the Made in U.S.A. label, he says. He was surprised to learn that the distributor was affixing a plastic American flag to each Porta-Bote. "They told me it is a

A number of American companies prove that U.S. products can sell well, if they are tailored to the Japanese market.

status symbol that will lure customers."

Because finding the right distributor can be critical, extensive research should be undertaken before one is selected, says Martin King, sales director for Flexi-Therm Inc., a small, Westbury, N.Y., manufacturer of thermographic devices that measure heat patterns on skin to detect such diseases as cancer.

In the United States, distribution is straightforward—a manufacturer, wholesaler, retailer and end user. But in Japan, "there can be a dozen middlemen between you and the end user, rendering the cost of selling and service prohibitively high," says King.

Flexi-Therm, which will sell $200,000 worth of medical equipment in Japan this year, was trapped in such a network but did not know it until King learned that one link in the chain, Fuji Photo Optical Company, had a channel to the end user, Japanese hospitals. The solution: Have Flexi-Therm's agent sell directly to Fuji, eliminating the markups of two middlemen.

King now predicts Flexi-Therm will expand its Japanese sales by 50 percent annually "until we are big enough to grow through a joint venture or acquisition of a Japanese company."

But the selection of a distributor is only one step in the process of doing business successfully in Japan. Another requirement for companies seeking markets there is the flexibility to adapt products and practices to meet Japanese standards, says Richard C. Waterman, international marketing services director at Toledo's Champion Spark Plug Company.

Waterman should know. For 12 years he has led Champion's campaign to win market share in Japan's intensely competitive auto industry. He proudly points to supply agreements between Champion and six of the country's nine auto makers. "While we are not making money hand over fist," he concedes, "we think we have accomplished a lot."

A 20-year veteran of the Japanese business scene, Waterman says he has seen countless U.S. companies walk away from Japan frustrated and empty-handed because "they conducted business as if they were at home." Typically, a firm will quote prices, hand over documentation in English and expect to get an order quickly. "It doesn't work that way in Japan," Waterman says.

This foldable pleasure craft made by Porta-Bote International, Mountain View, Calif., is selling well in Japanese sporting good stores despite the authorities' attempt to discredit the boat in a test to certify its strength. The boat passed the exam with flying colors.

PHOTO: CLAUDE CHARLIER—BLACK STAR

PHOTOS: PORTA-BOTE INTERNATIONAL

The decision to cross the Pacific, he says, requires a firm commitment. Many years ago, before Toyota and Honda became household words in this country, Champion saw what would happen. "We knew that Japanese auto makers would eventually dominate the global car park," Waterman says. So, he says, Champion vowed "to prove itself a trustworthy and quality supplier early on," in order to position itself for the future.

Champion has never deviated from that commitment, Waterman says. When the Japanese complained about quality, "we drove defects down to a level they could accept," he says. And when the firm realized that its delivery and service were not up to Japanese standards, it changed to "just-in- time" methods.

As practiced in Japan, Waterman says, that means "they call you in the morning for a delivery at 2 p.m. at dock A and then a few hours later for a 4 p.m. drop at dock B." That requires much more than simply building a warehouse stocked with inventory. Says Waterman: "You also have to fig-

ure out the labyrinthine Japanese distribution network in order to design the most efficient delivery system."

While larger companies like Champion operate directly in Japan, and smaller ones like Porta-bote work through distributors, companies that do not want to commit employees to export promotion have another alternative—a trading company. A U.S. breed of such companies are export management firms. Ralph Chew, head of New York's Chew International Group, says that export management companies like his are "among America's best-kept secrets."

There are 600 of these companies. In representing a firm's product, they often bundle it with others and "search out markets for it all over the world," Chew says. The management company can be the least risky and costly option for the small exporter because it can spread costs over many manufacturers and it gets paid on commission.

In Japan, where many specialty markets are littered with governmental obstacles, an EMC can be particularly valuable for running interference.

This year Bright Star Industries, Inc., a Clifton, N.J., maker of industrial flashlights, will be honored with the Commerce Department's E Star award for excellence in exporting. Bright Star is being singled out for perseverance and eventual success in Japan. Tom Gunivan, Bright Star's international sales manager, says he is thrilled, but he concedes that he knows little about the firm's Japanese business: "We leave everything to our EMC."

Even the most dogged and seasoned EMC can drown in Japanese red tape, as Bright Star's EMC, Chew International Group, found out. Japan was Bright Star's second biggest export market in 1980, when new standards on industrial flashlights were adopted worldwide. Bright Star complied, and it obtained import licenses from most countries in a matter of months. But five years passed without a license from Japan, and Bright Star's market there all but vanished in a stalemate over testing procedures.

Out of desperation, Chew sought the help of the Japanese External Trade Organization, which promotes exports to Japan. Three months later, Bright Star was again shipping flashlights to that country.

In the past, it was rare for JETRO to take an active role in trade disputes, says Hiroyuki Wakabayashi, of the organization's New York branch. But with JETRO's recent addition of a trade ombudsman's office, "we can now routinely help American companies like Bright Star get answers to questions and perhaps speed things along."

U.S. companies with the most promising possibilities in Japan, Wakabayashi says, are in electronics, biotechnology and other high tech fields.

On the prowl for such candidates are Japanese trading organizations like Sumitronics, Inc., a Sunnyvale, Calif., subsidiary of Sumitomo Corporation. Currently selling and servicing the equipment of 27 U.S. vendors, Sumitronics' mission is to help clients nurture markets in Japan while avoiding costly mistakes, says Executive Vice President Takehiko Kimoto.

In a market generally seen as trying the patience of a saint, some American products need no army of lobbyists—they virtually sell themselves.

Take the case of Soho Beverages, Inc., a New York maker of soft drinks with no artificial additives that recently passed the $1 million sales mark in the United States. It was approached by the Port Authority of New York and New Jersey, a quasi-public organization that helps small businesses in its area get started as exporters. "Soho had never even considered that it might have a potential hit in Japan," says Alice Gordenker, the port authority's product manager for food groups.

Gordenker convinced Soho that it had a good chance of cashing in on the Japanese penchant for the new, exclusive and chic. Finding a small Japanese distributor that could supply Tokyo's trendy restaurants, Gordenker worked successfully to create an image of an all-natural beverage for health-conscious 18- to 35-year-olds.

The Japanese, particularly the young generation, are very attuned to American culture, music and fashion, says James Shennan, president of S&O Consultants. His San Francisco marketing and advertising firm recently beat out a number of Japanese competitors in a bid to reposition Mitsukoshi, Japan's oldest and largest department store, through design of new Western-oriented trademarks, logos and packaging.

That development is among the wide range of evidence showing that, if an American company does its homework and is able to adapt its behavior and products to the Japanese customer, it can join the ranks of American businesses flourishing in Japan. NB

To order reprints of this article, see page 81.

Help For Potential Exporters

Carlya Sidney Stone, president of Business and Policy Associates, a Greenville, Del., consulting firm on Asian markets, recommends the following resources as particularly useful for small businesses:

The U.S. Commerce Department's International Trade Administration, granddaddy of export assistance groups. It has 47 district offices around the country. For a listing of these officers and other information, contact ITA, 14th & Constitution Avenue, N.W., Room 3810, Washington, D.C. 20032; (202) 377-4996. The specialist for Japan is Maureen Smith, (202) 377-4527. For a directory of American export trading companies, export management companies and trade consultants, call the ITA's Office of Export Trading Company Affairs, (202) 377-4545.

The Small Business Administration's Office of International Trade, which provides counseling and loans and conducts export workshops: 1441 L Street, N.W., Washington, D.C. 20416; (202) 653-7794.

The Japan External Trade Organization, which maintains several offices in the United States to distribute information on market opportunities and videotapes on business customs and arrange introductions to Japanese distributors. Main office: JETRO, Japan Trade Center, 44th Floor, 1221 Avenue of the Americas, New York, N.Y. 10020-1060; (212) 997-0411.

Columbia University's Business School Center on Japanese Economy and Business, which maintains a huge computerized database of statistics and market research on Japan: Columbia University, Broadway and 116th Street, New York, N.Y. 10027; (212) 280-3497.

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MANAGING YOUR BUSINESS

Franchising

The vigorous automotive aftermarket grows from the fertile ground of America's love affair with the automobile.

By Joseph L. Koach

The automotive aftermarket reflects Americans' passion for taking to the road in their own cars—a trillion miles of driving last year alone. The myriad components in the aftermarket chain include tire, battery and accessory stores; auto supply chains; specialty repair shops; mass merchandisers; discounters; and a variety of car care services.

It is a huge business—the Small Business Administration estimates automotive aftermarket sales last year were more than $60 billion.

Andrew Kostecka, the Commerce Department's franchising specialist, says $10 billion of this business is handled by 38,000 franchise outlets of more than 75 automotive aftermarket franchise systems. Sales through such outlets are growing 10 percent a year. And they are expected to continue growing through the next decade as traditional sources of full-service automotive care, such as service stations (down 40 percent since 1973) and new car dealerships, continue to decline.

The growth is going to be fueled by owners' tendency to keep their cars longer. Industry surveys show the average age of cars on the road has been steadily increasing, rising to 7.5 years in 1985. This "keep and care" trend, which is expected to continue, is central to most franchised automotive services' marketing plans.

The main consumers of their products are owners of 2-to-10-year-old cars, about 73 percent of the passenger cars on the road in the United States.

Value-conscious customers are interested in sophisticated service and high quality professional work. Says Ron Palmer, president of Cosmetic Car Care, a franchisor specializing in the reconditioning process known as auto detailing: "Once exposed to such service, they become repeat clients."

Says Ron Moore, president and chief executive officer of the 30-year-old Midas International Corporation: "The drive-up, drive-out services offered by franchises are clearly the wave of the future in the automotive industry."

These outlets are also trying to overcome the image of automotive services as grimy or cheerless garages into which customers' cars disappear to be worked over by the high priests of the monkey wrench. Jake Homer, who created Duration Lube Centers in 1983 and has sold 69 territorial franchises, tried to be "different from the rest," he says. "We boast a high tech, purple-carpeted lounge-like waiting room with television viewing screens showing every detail of the customer's car being serviced."

Duration's facilities, says franchisee Max Bolin of Anchorage, Alaska, "have more comfort for customers. Our outlets are larger and have a futuristic look."

In another step for customer convenience, says Homer, "We have taken a page from Domino's Pizza. We make house calls with our mobile units. We can service fleets or individual car owners at home or at the office."

Several attempts have been made to develop auto service parks, in which a number of franchised outlets are gathered in one group of buildings. Thus customers have what amounts to an automotive services mall, where they can find everything from muffler and brake repair to tune-ups to oil changes to repainting. But no national auto service park franchise has been created, in part due to competition among leading franchisors over which company will be the anchor store in such an arrangement.

Harold Nedell, a franchise innovator who started with AAMCO Transmissions in 1965 and transformed Meineke Discount Mufflers from a three-shop chain to a 500-shop franchise with annual sales over $120 million, says that the rate of change for the automotive aftermarket industry will continue to accelerate. He says automotive detailing and transmission servicing will remain good possibilities, but the future of muffler, tune-up and brake repair operations is more dubious because new technologies are lengthening the life of aluminum and stainless steel parts. Since 1975, the catalytic converter has added from six to eight months on average to the life expectancy of exhaust systems. This, added to the increase in muffler franchise outlets, has had a negative effect on market share for all of them.

Nedell also is concerned about the future of quick-service operations. Lubricating a car and changing its oil in six to eight minutes looks like a good idea on paper, but it requires a high volume to support a profit. And 30 or 40 cars a day are hard to come by in the real world, Nedell says. "These outlets are often subjected to feast and famine cycles," he says. "Weather conditions and other factors can affect customer flow."

Given those cautions, Nedell says, franchisors should be able to offer the convenience, quality and price advantage that will enable them to capture an increasing share of the automotive aftermarket. **NB**

Joseph L. Koach is head of Koach Enterprises, Inc., a franchise consulting company, and former president of the International Franchise Association.

Escort Refuses!

Dear Customer, *From: Drew Kaplan*

Escort turned down our $10,000 head to head challenge described below. Escort says that Maxon's Radar Detector is "primitive", "bottom-end" and "an off-shore produced electronics 'gadget' ". I don't know about you, but to me these words conjure up visions of a cheap toy being produced off in the middle of a rice paddy somewhere in the middle of nowhere.

Escort, on the other hand, which is made in the U.S., exudes a high cost, quality image. Don't you just bet that it costs a fortune to build Escort and Passport (the smaller version)?

Well, we are going to challenge Escort **AGAIN** to a head to head 'duel to the death' on Maxon's electronic merits alone. And, we plan to win. But first there are a few things you should know.

Cincinnati Microwave, the company that makes Escort & Passport, is a public company. And being public, they have to file financial information with the SEC.

The public information they have published appears to show that in the year that ended Dec. 1985, Cincinnati Microwave with "substantially all of its revenues and profits derived from the sale of radar warning receivers" made an operating profit of about $45,810,000 on sales of about $112,605,000. Wow!

The $45 million profit is after all engineering, selling and General & Administrative expenses, but before taxes.

Their cost of sales (goods) was only about $40,027,000. So, if you divide $40,027,000 by $112,605,000 it doesn't take a genius to figure out that cost of goods represents an average of only about 35.5% of selling price. Wow!

I only bring up their profit to illustrate that a high retail price doesn't always mean a high manufacturing cost.

There's no question in my mind that Maxon can manufacture cheaper in an offshore 'rice paddy', but if you pay $245 for Escort or $295 for Passport, it should be based on a head to head test with Maxon, not on perceived retail price points.

FORGET PRICE COMPLETELY

So, forget that Escort costs $245, Passport $295, and Maxon $99[90]. Let's judge them on their own merits. And, let's look at just what Escort itself has to say about our challenge. (Please read DAK's and Escort's letters to the right.)

Escort says that, "**Regardless** of the results, such an event lends credibility to the challenger." Well, they are absolutely correct. That's why I put up the $10,000 in the first place. Fair is fair.

Plus, there are several radar detectors that claim to have won this or that ranking in "Independent Magazine Reviews." So, I'm ignoring any reviews and asking for a one on one, head to head test.

But look at what Escort says in their letter: "Range is the easiest detector quality to measure, but by no means the only important quality." Wow, I thought range was really important?? Escort refers to "goodness" being determined by things not so easily measured.

Well frankly, I don't know how to measure "goodness". Escort, in my opinion, is a top notch company. They make a superb product I'd be proud to sell. And, they have great customer service.

DAK has great toll free technical and regular customer service. But, I'd be the first to admit that with over $45 million in profits, Escort can probably run circles around us in advertising, and maybe even in service. But, I don't think they can beat Maxon's Radar Detector.

HOW GOOD IS GOOD?

When Escort was introduced, it was revolutionary. But, you can only go so far. And in my opinion (someone else might object), radar detecting has gone about as far as it can go. So, while Escort has made improvements, it's Maxon who has moved mountains to catch up.

DAK UPs THE ANTE TO $20,000

Now I realize that next to $45 million dollars, $20,000 isn't much, but it's a lot to DAK. And, I'll even go one step farther. I'll print the exact results of the test, win, lose, draw, or no-show in the first catalog I publish after January 1, 1987.

Escort, the ball is now in your court. Below is the "**NEW**" version of my challenge with the time and amount changed.

I don't know what else DAK or Maxon can do to prove that the RD-1 Superheterodyne Detector should be judged on its head to head performance against Escort, not on its selling price!

WAS $10,000

A $20,000 Challenge To Escort

Let's cut through the Radar Detector Glut. We challenge Escort to a one on one Distance and Falsing 'duel to the death' on the highway of their choice. If they win, the $20,000 (was $10,000) check pictured below is theirs.

By Drew Kaplan

We've put up our $20,000 (was 10). We challenge Escort to take on Maxon's new Dual Superheterodyne RD-1 $99[90] radar detector on the road of their choice in a one on one conflict.

Even Escort says that everyone compares themselves to Escort, and they're right. They were the first in 1978 to use superheterodyne circuits and they've got a virtual stranglehold on the magazine test reports.

But, the real question today is: 1) How many feet of sensing difference, if any, is there between this top of the line Maxon Detector and Escort's? And 2) Which unit is more accurate at interpreting real radar versus false signals?

So Escort, you pick the road (continental U.S. please). You pick the equipment to create the false signals. And finally, you pick the radar gun.

Maxon and DAK will come to your highway with engineers and equipment to verify the results. And oh yes, we'll have the $20,000 check (pictured) to hand over if you beat us by more than 10 feet in either X or K band detection.

BOB SAYS MAXON IS BETTER

Here's how it started. Maxon is a mammoth electronics prime manufacturer. They actually make all types of sophisticated electronic products for some of the biggest U.S. Electronics Companies. (No, they don't make Escort's).

Bob Thetford, the president of Maxon Systems Inc., and a friend of mine, was explaining their new RD-1 anti-falsing **Dual** Superheterodyne Radar detector to me. I said "You know Bob, I think Escort really has the market locked up." He said, "Our new design can beat theirs".

So, since I've never been one to be in second place, I said, "Would you bet $20,000 (10) that you can beat Escort?" And, as they say, the rest is history.

By the way, Bob is about 6'9" tall, so if we can't beat Escort, we can sure scare the you know what out of them. But, Bob and his engineers are deadly serious about this 'duel'. And you can bet that our $20,000 (was $10,000) is serious.

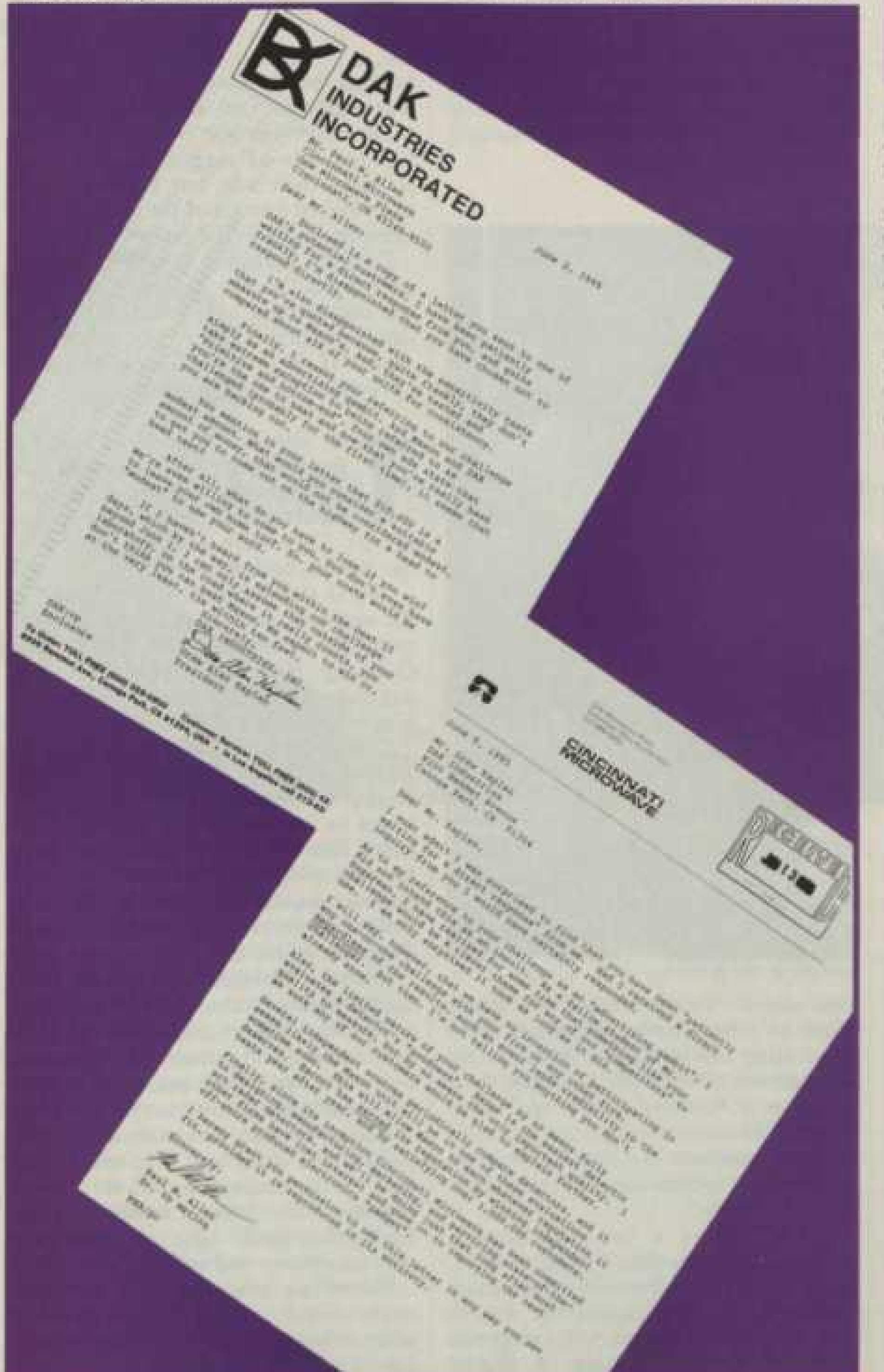
. . .Next Page Please

. . .Challenge Continued

We ask only the following. 1) The public be invited to watch. 2) Maxon's Engineers as well as Escort's check the radar gun and monitor the test and the results.

3) The same car be used in both tests.

4) We'd like an answer from Escort no later than December 31, 1986 and 60 days notice of the time and place of the conflict. And, 5) We'd like them to come with a $20,000 (was $10,000) check made out to DAK if we win.



SO, WHAT'S DUAL SUPERHETERODYNE?

Ok, so far we've set up the conflict. Now let me tell you about the new dual superheterodyne technology that lets Maxon leap ahead of the pack.

It's a technology that tests each suspected radar signal 4 separate times before it notifies you, and yet it explodes into action in just 1/4 of one second.

Just imagine the sophistication of a device that can test a signal 4 times in less than 1/4 of one second. Maxon's technology is mind boggling.

But, using it isn't. This long range detector has all the bells and whistles. It has **separate** audible sounds for X and K radar signals because you've only got about 1/3 the time to react with K band.

There's a 10 step LED Bar Graph Meter to accurately show the radar signal's strength. And, you won't have to look at a needle in a meter. You can see the Bar Graph Meter with your peripheral vision and keep your eyes on the road and put your foot on the brake.

So, just turn on the Power/Volume knob, clip it to your visor or put it on your dash. Then plug in its cigarette lighter cord and you're protected.

And you'll have a very high level of protection. Maxon's Dual Conversion Scanning Superheterodyne circuitry combined with its ridge guide wideband horn internal antenna, really ferrets out radar signals.

By the way Escort, we'll be happy to have our test around a bend in the road or over a hill. Maxon's detector really picks up 'ambush type' radar signals.

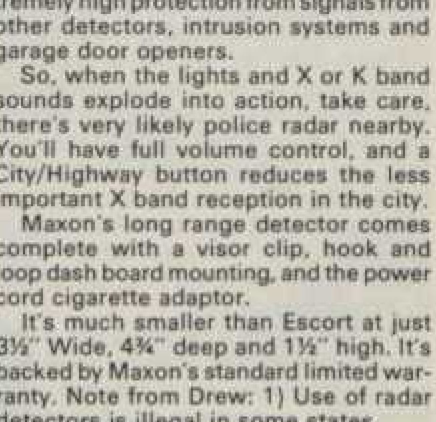
And the key word is 'radar', not trash signals. The 4 test check system that operates in 1/4 second gives you extremely high protection from signals from other detectors, intrusion systems and garage door openers.

So, when the lights and X or K band sounds explode into action, take care, there's very likely police radar nearby. You'll have full volume control, and a City/Highway button reduces the less important X band reception in the city.

Maxon's long range detector comes complete with a visor clip, hook and loop dash board mounting, and the power cord cigarette adaptor.

It's much smaller than Escort at just 3½" Wide, 4¾" deep and 1½" high. It's backed by Maxon's standard limited warranty. Note from Drew: 1) Use of radar detectors is illegal in some states.

2) Speeding is dangerous. Use this detector to help keep you safe when you forget, not to get away with speeding.



CHECK OUT RADAR YOURSELF RISK FREE

Put this detector on your visor. When it sounds, look around for the police. There's a good chance you'll be saving money in fines and higher insurance rates. And, if you slow down, you may even save lives.

If you aren't 100% satisfied, simply return it in its original box within 30 days for a courteous refund.

To get your Maxon, Dual Superheterodyne, Anti-Falsing Radar Detector risk free with your credit card, call toll free or send your check for just $99^{90} ($4 P&H). Order No. 4407. CA res add tax.

OK Escort, it's up to you. We've got $20,000 (10) that says you can't beat Maxon on the road. Your answer, please?

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MANAGING YOUR BUSINESS

Marketing

Steven Livers' service gives small businesses a way to compare their ad placement strategies with their competitors'—at a reasonable cost.

By Nancy Croft

It was one of those steamy July afternoons in Union, Ohio. You know the kind—when the black pavement can blister the soles of a manufacturing exec's Italian loafers. Michael Desch, a marketing type who works for this place that grinds out industrial clamps, was trying to figure a way to take a bite out of his dog-eat-dog competitors.

Desch didn't have a lot to spend on advertising in all the metalworking trade magazines. And a slick ad agency was definitely not in the picture. But this Desch character is one smart cookie. He hired Stephen Livers to do his dirty work—get the low-down on how the other guys' ads are doing. What Desch found out could help his company turn a buck or two.

Stephen Livers is no tough city detective out of a Mickey Spillane novel, but he is a gumshoe of a different sort. Livers uses a computer database to allow small businesses to track ad placements by their competition.

"Because a single ad in one publication can cost thousands of dollars, few companies can afford to buy ad space in every magazine their customers read," says Livers. "That's why choosing ad space is a critical decision for the small business person with a limited budget."

Livers, chairman of Space Analysis Systems, Huntingdon Valley, Pa., originally created his database to keep track of ads placed in major trade journals and specialty magazines by more than 70,000 businesses in the United States and Canada.

The system helps publishers compare their ad space sales with competing magazines'. Livers thought from the beginning that once the base was large enough, he could perform a mirror image of his publishers' service for small and medium-sized businesses.

In June, SAS began a service called SpaceTrak to enable a company to make the best choice of where to purchase ad space by tracking which magazines continually draw competitors' marketing dollars. The smaller company, which does not have a market research staff, can in effect "piggyback" on the research of its larger competitors.

Desch, marketing manager of TE-CO, a clamp manufacturer for the metalworking industry, was one of Livers' first clients. Desch wanted the inside word on which trade magazines were generating the best sales leads for his competitors. "We're the youngest company in a 'me-too' industry," says Desch. "Because we duplicate our competitors' products, the only way we can get ahead is to beat them on price, quality and service."

Paul Graham, of Boston-based Knapp Shoe Company, went to a gumshoe of a different sort for advice on how to stomp his competition.

PHOTO: RICK FRIEDMAN—BLACK STAR

SpaceTrak is a two-step search. When a client provides by phone or letter a list of competitors and their headquarters, the first SpaceTrak search will uncover which market categories competitors are targeting. A second search produces individual reports detailing the publications that run competitors' ads in those categories, and how much ad space has been purchased monthly over the previous two years.

From SpaceTrak's initial search, Desch discovered that some of TE-CO's competitors are advertising in markets he had never considered tapping. "I was surprised at what markets our competitors are in," he says. "I go through lots of magazines and I see some of their ads, but I never would have looked into six of the markets that came up in the initial report."

Desch is analyzing SpaceTrak's printed reports "to see if three or four of our competitors are advertising in the same magazine over and over," he says. "If they are, I should look into advertising in that magazine, too."

The cost of SpaceTrak's initial search is $2 per competitor. An additional $2 is charged for each report resulting from the second search. The entire package can be on the client's desk in two days.

"I was shocked at how little I paid for the service," says Paul Graham, a vice president of Boston-based Knapp Shoe Company. He recently paid $25 to find out the ad strategies of other companies in the safety shoe industry.

Graham, who is a new employee, also wanted to get a feel for the amount Knapp is spending on advertising in relation to its competitors' spending. He asked SpaceTrak to prepare a report on his own company's advertising as well as his competitors' to see if the information it provides is accurate. SpaceTrak passed his test.

Norman Wohlers, vice president of marketing and sales at J&W Scientific, a Folsom, Calif., manufacturer of diagnostic and quality control instruments, ordered a SpaceTrak search to explore new markets for his company's press releases. He also was motivated by its inexpensive price tag. "We could track this information in-house," says Wohlers, "But we're a small company. Doing that would take too much valuable manpower and time."

SpaceTrak can also help entrepreneurs avoid making costly mistakes when calculating their ad budgets, says Livers. "Before drafting a marketing plan and seeking venture capital, an entrepreneur may want to find out how much their competitors are spending on advertising," he says.

Livers' service does not, however, "advise clients on how to do their advertising," he says. "We just provide a report card." ■

COVER STORY

Small Business: What's Next

The job now: Get action on a series of crucial recommendations that would chart a course into the 21st century.

By Roger Thompson

Sen. Robert Dole displays a copy of the final report of the White House Conference on Small Business moments after receiving it from Ralph L. Stanley (left), the conference executive director. Dole accepted the report on behalf of Congress. Most of the proposals can take effect only if enacted into law.

PHOTO: T. MICHAEL KEZA

It is only minutes after the end of the 1986 White House Conference on Small Business. Instead of heading for home, a dozen weary delegates have huddled for a strategy session. They quickly lay the groundwork for a new organization to work on achieving what emerged from the four-day meeting as small business' No. 1 goal—ending the liability insurance crisis.

"We're trying to create a grass-roots network to sustain action on this issue," explains Richard J. Cusick, a physician from Emmaus, Pa.

Next door in another hotel conference room, Wiley J. Pickett tells the New Jersey delegation of his plan to create a computer-based information clearinghouse for small business owners who want to track congressional action—or inaction—on conference recommendations.

Pickett, a Somerdale, N.J., manufacturer, says the clearinghouse, Grass-roots Network, Inc., will have a Washington representative who will feed information into a computer at his office.

Subscribers to the service will obtain, via computer hookup or mail, updated intelligence reports that will let them know where they can most effectively apply grass-roots pressure, at any given moment, to achieve the small business goals. Says Pickett: "We want to make sure the business community's views are heard when it counts. This is one way for us to exercise our political clout more effectively than ever before."

Down the hall, members of the National Association of Women Business Owners celebrate their success in shaping nearly two dozen of the final conference recommendations. "We came to the conference with an agenda not just for this year or the next few years, but to take small business into the 21st century," says association President Mary Del Brady, owner and head of a Pittsburgh consulting firm. As a result of conference contacts, the organization expects to open several new chapters in cities across the nation, enhancing women business owners' political clout along the way.

Indeed, political clout is what the conference was all about. The 1,823 delegates, representing a cross section of American small firms, left behind a list of 60 recommendations on which they want action, primarily from Congress (see page 48).

Pocketbook issues such as liability insurance, federally mandated parental leave for employees and competition from nonprofit organizations emerged as seven of the top 10 recommendations. But the other three showed the delegates' concern for issues beyond the bottom line. As expected, they called for a balanced federal budget. Unexpected were votes for creating a federal Department of International Trade and teaching entrepreneurial education. Broad-based economic policy concerns captured nearly half of the remaining 50 recommendations.

Results on most issues will not come soon. The current congressional session adjourns shortly, and the 100th Congress to be elected next month does not

For your convenience, this special report may be easily removed and kept for reference. Reprints also may be ordered; see page 81.

COVER STORY

Small Business: What's Next

convene until January. Grass-roots strategists and small business associations plan to use the interim to plan their assault on behalf of the conference recommendations. The drive to win approval of the recommendations will be one of the most significant legislative initiatives in Washington for the remainder of the decade, and the outcome will shape the entrepreneurial charter that will carry small business into the 21st century.

Business owners don't have to take much time away from work to make an impact on advancing the conference's agenda, says Donald C. Berno, associate manager of the U.S. Chamber of Commerce Small Business Center. His advice:

- Meet with your local congressman or senator next time he is in the district and go over the conference recommendations.
- Pay particular attention to the issues that mean the most to you in your business. Ask for support in those areas and request that your lawmaker introduce or cosponsor legislation to that effect.
- Make a special effort to become acquainted with the legislators' aides who handle business matters. "A meeting or a phone call is worth its weight in gold," says Berno. "Think of it as long-range planning. It can have a profound effect on the bottom line."

Major organizations representing small business are planning follow-up meetings in which small business people can participate and help develop strategies for winning approval of the conference recommendations.

The U.S. Chamber of Commerce has tentative plans for a January strategy session in Florida. Several hundred of the delegates to the White House Small Business Conference would join with Chamber leaders to develop a battle plan for the 1987 legislative year. The National Federation of Independent Business is inviting conference delegates to a February 24-25 lobbying blitz on Capitol Hill, at their own expense. National Small Business United, recently formed by the merger of Small Business United and the National Small Business Association, will hold its strategy meeting in January in San Diego.

Delegations from most states plan to hold their own meetings to build support for conference recommendations. A steering committee set up by the Florida delegation, for example, plans a September 26 session to create a small business agenda for the state legislature. Joseph A. Castillo, owner of a Phoenix, Ariz., blueprinting firm who was a delegate to the 1980 White House Small Business Conference, says: "We stuck together after the 1980 conference, and we'll continue this time to apply political pressure to carry out the recommendations."


PHOTO: DARIO PERLA

Gelorma "Chomie" Persson, a delegate from Little Silver, N.J., says a proposed federal parental leave law "hangs over small business like the threat of doom." Her company sells tractors and repairs small engines.

As a result of state delegation sessions and other activities designed to win approval of the conference platform, the small business lobby hopes to enhance its influence in Washington substantially, beginning with the next Congress.

There is already evidence, in fact, of an increase in that clout:

The shot the delegates fired at parental leave, making it their surprise No. 2 issue, may prove fatal to a House bill embracing the concept. Smaller businesses had been particularly concerned about the plan, under which employers would have been required to grant up to 18 weeks of unpaid leave to employees in connection with the birth, adoption or illness of a child, and up to 26 weeks' unpaid leave for disability. In addition to those provisions, the entrepreneurs at the conference were concerned about proposals that could have eventually required such leave on a paid basis.

Rep. Patricia Schroeder (D-Colo.), a key sponsor of the bill, says a head count before the August 17-21 conference indicated that "it was possible we could get the bill through," but "now I don't know." The conference's action, she says, "doesn't help the bill at all."

Delegates' determination to mount a strong campaign on behalf of their recommendations stems in part from what they considered a marked coolness in Washington toward their landmark meeting.

When they arrived in Washington, delegates wondered whether anyone was listening. The White House scheduled the conference for a period when Congress was in recess and President Reagan was in California on vacation. Delegates vented their frustration on Donald T. Regan, White House chief of staff, during a speech he made at the conference's opening session. He was hissed and booed twice by a large segment of the audience.

But the delegates returned home determined to make their voices heard. At the closing session, Senate Majority Leader Robert Dole (R-Kans.), who symbolically accepted the final conference report on behalf of Congress, told them how. Perhaps unnecessarily—he was preaching to the converted—he said: "You go out and organize, and organize and organize. What finally gets done depends on how much appropriate pressure you apply."

The delegates have good reason to expect success. Two thirds of the recommendations formulated by the last conference, in 1980—it was the first since the 1930s—eventually received legislative or administrative action on the federal level. Delegates plan to do better this time around. "Either that, or we'll see a lot of new faces in Congress," says Mike Goffin, a furniture

store owner from Boise, Idaho. Rexie Lightsey, a Sylacauga, Ala., motel owner, notes that small businesses are generating most growth and says: "The politicians are going to listen, because small business is becoming big business. The biggies are falling by the wayside."

Important statistics underline what she is saying. America now has about 14 million small businesses, defined as those with under 500 employees, and last year they accounted for about 40 percent of the gross national product. Those statistics, however, tell only half the story.

Says David Birch, a Massachusetts Institute of Technology professor who pioneered research on the economic importance of small business: "Virtually all the new jobs created since 1980, roughly 9 million, have been added to the economy by small business." During that same period, he adds, the 500 largest industrial corporations have laid off 2.2 million people. "It's clear most of the new jobs are coming from firms of 20 or fewer employees," he says.

Accordingly, the conference produced an agenda for sustained small business growth. Though new issues dominated the top 10 recommendations, a number of old issues resurfaced: amend the Constitution to require a balanced budget; give the President line-item veto authority over spending bills he must now accept or reject as a massive package; repeal the Davis-Bacon Act, which in effect requires federal construction contractors to pay union wage scales; and reform the Social Security system by, among other things, freezing taxes on wages and limiting cost-of-living adjustments.

The White House is largely sympathetic to the delegates' concerns, says Ralph L. Stanley, executive director of the conference. "The policy thrusts of the top 10 recommendations are things the administration can support, although there are some differences in degree," he adds. The administration, for example, advocates reform of Davis-Bacon, such as raising the minimum dollar amount on federal contracts to which the act applies from $2,000 to $250,000. But it does not favor repeal.

Small business will find Congress somewhat less enthusiastic than the administration about a number of its proposals. Issues recycled from 1980 have generated debate but no action over the past six years. The crush of major legislation awaiting congressional attention before adjournment in October means that new proposals must wait until next year for consideration. But two issues did emerge as rallying points for immediate action: reform of federal product liability laws and defeat of the parental leave legislation.

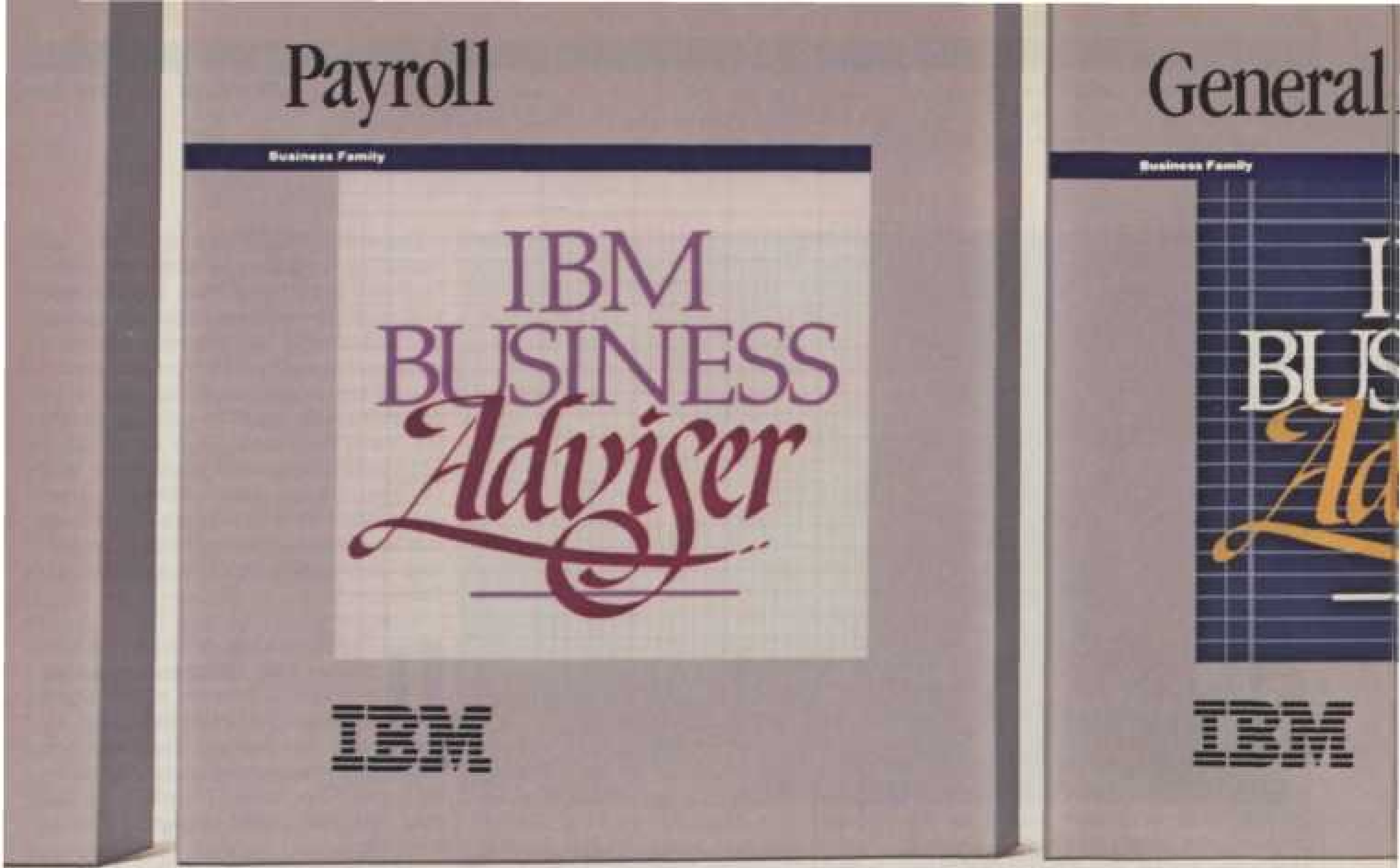
Delegates mounted a small business telephone call-in and letter-writing blitz in favor of the Senate product liability bill when it came to the floor last month. Dole gave them only faint hope of beating back the well-organized ranks of trial lawyers and consumer groups who oppose the legislation, which would override state laws and put federal limits on court awards for pain and suffering in cases involving multiple defendants. Defendants would pay only their fair share of damages.

Sen. Robert Kasten (R-Wis.), chief architect of the bill, urged conference delegates at a standing-room-only breakfast meeting to make product liability reform "a litmus test issue in terms of voting for members of Congress."

Opposition to the parental leave bill spread like wildfire through the small business community over the summer and made the issue a surprise runner-up on the list of final recommendations. It did not appear on any preconference list of top issues. Says Stanley: "The delegates didn't just say 'no' to parental leave, they said 'hell no!'" As a practical matter, small business owners say they cannot afford federally mandated leave benefits. As a philosophical matter, they strenuously object to federal intervention in their business affairs.

Delegates also sent the White House and Congress a strong message in support of the Small Business Administration, although the vote was split between two competing recommendations. As a result, the SBA issue fell lower on the final list than most delegates would have liked.

One recommendation called for continuing SBA programs "as presently



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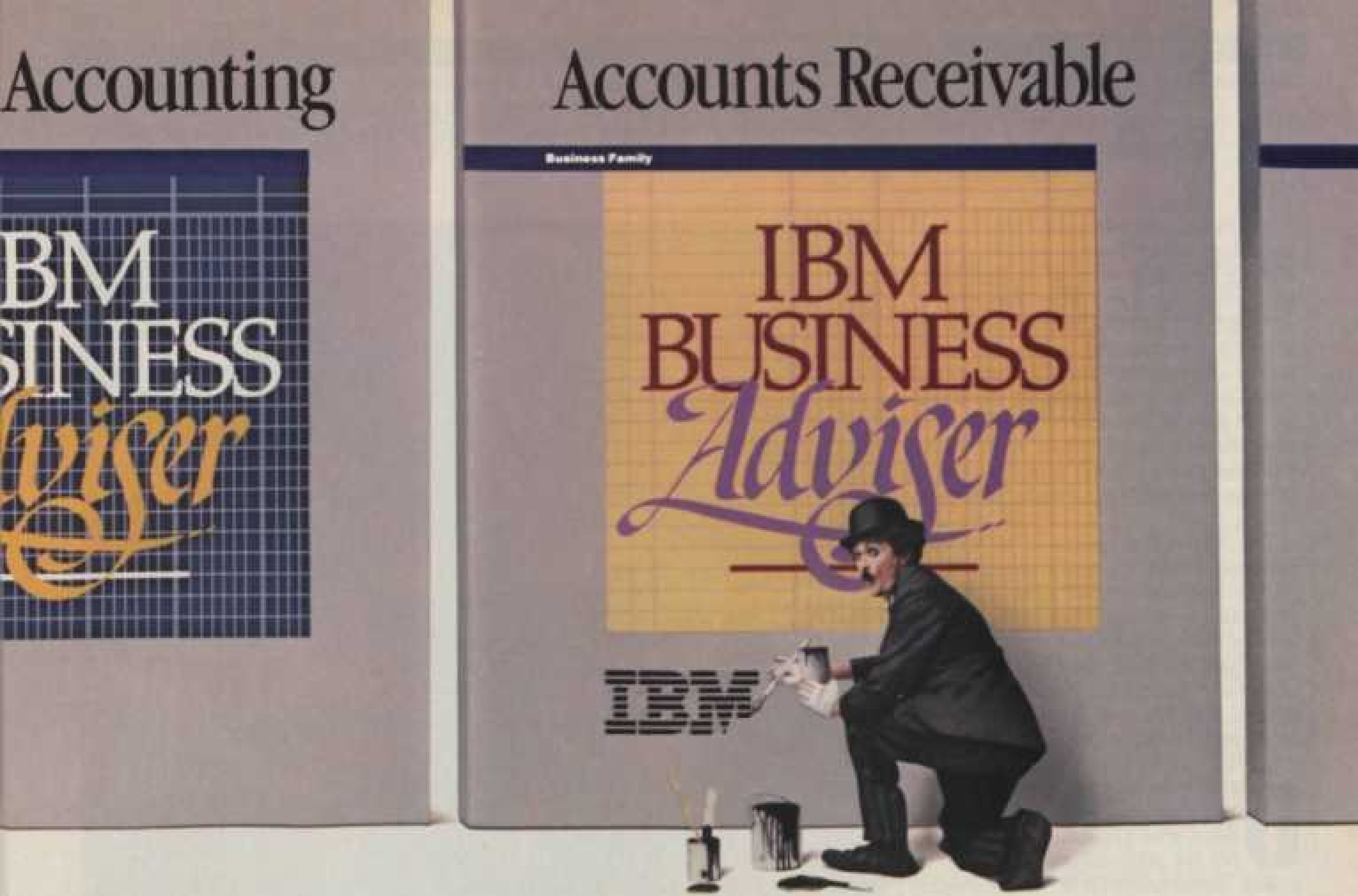

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constituted." It came in 13th in final balloting, after having ranked No. 1 during first-day voting. A competing recommendation called on Congress to mandate "a comprehensive review of all SBA programs to assess their efficiency and appropriateness to the broad needs of the small business community." It ranked 45th on the final list. The division developed when rival small business groups failed to arrive at compromise wording on a single SBA resolution.

The National Association of Women Business Owners, Small Business United, the National Small Business Association and a caucus representing members of racial minorities supported the stand-pat wording. The U.S. Chamber of Commerce and the National Federation of Independent Business championed reevaluation of SBA programs.

Despite the rift, the combined tally for the two SBA recommendations was 116 votes higher than for the conference's top issue, liability insurance reform. Frank Swain, head of the SBA's Office of Advocacy, says he does not think the fact that there were separate SBA recommendations "diminishes the political message sent to the White House to a great degree. The combined vote accurately states that an independent SBA is among the top issues for the small business community."

While most small business owners have never used SBA loans or management services, the agency enjoys strong support as the official voice of small business in Washington. Their message appears to have gotten through to the Reagan administration.

White House Chief of Staff Regan told the delegates that the President intends to appoint a permanent SBA administrator. "I know you will all be pleased with his choice," he said to enthusiastic applause. Less than a week after the conference adjourned, Acting SBA Administrator Charles Heatherly announced that the White House has scrapped its campaign to eliminate the SBA as an independent agency.

Action on the SBA issue demonstrates that delegates arrived for the conference preoccupied with defending or expanding past gains. "Instead of articulating a future for the Small Business Administration, the verb in the [main] recommendation was 'maintain,'" notes Kenneth Peck, a Denver lawyer who was moderator of economic policy issue sessions.

PHOTO ED LALLO

Red "Rufus" Tindol, a delegate from Atlanta who owns an exterminating company, says, "Hundreds of small businesses have suffered terribly from this liability insurance mess. A lot of businesses already have gone under."

In the same vein, delegates adopted recommendations supporting small business set-asides, top priority of the minority caucus. The conference called on Congress to make permanent and expand the Small Business Innovation Development Act, which sets aside 1.25 percent of federal research funds for small business.

And delegates proposed making the Internal Revenue Service accountable under the Equal Access to Justice Act and the Regulatory Flexibility Act. The former requires the government to pay a small business' legal bill when an agency takes legal action and loses. The latter requires agencies to examine the impact of proposed regulations on small businesses.

"It was disheartening that in choosing between well-worn ideas and new ideas, the delegates in most cases chose the well-worn ones," says Peck. But new ideas did surface. Delegates showed far more interest in tackling broad economic issues this year than in 1980. This new boldness showed up in recommendations such as the call to create a cabinet-level department of international trade, end farm subsidies and support antitrust laws. "A few years ago, these would not have been considered small business issues," says Peck.

The final list of 60 recommendations embraces 11 different issue areas established before the conference. The list was culled from 2,232 ideas presented during 57 one-day state conferences over the past year. Six regional conferences during the summer narrowed the list to 371 recommendations, which became the agenda for the national conference. Through a series of debates and votes over three days, delegates refined the list to 60 in rank order. Fol-

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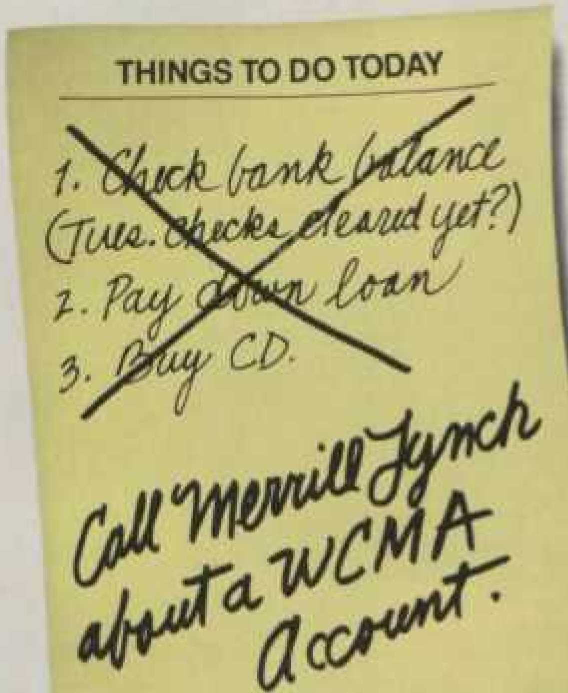

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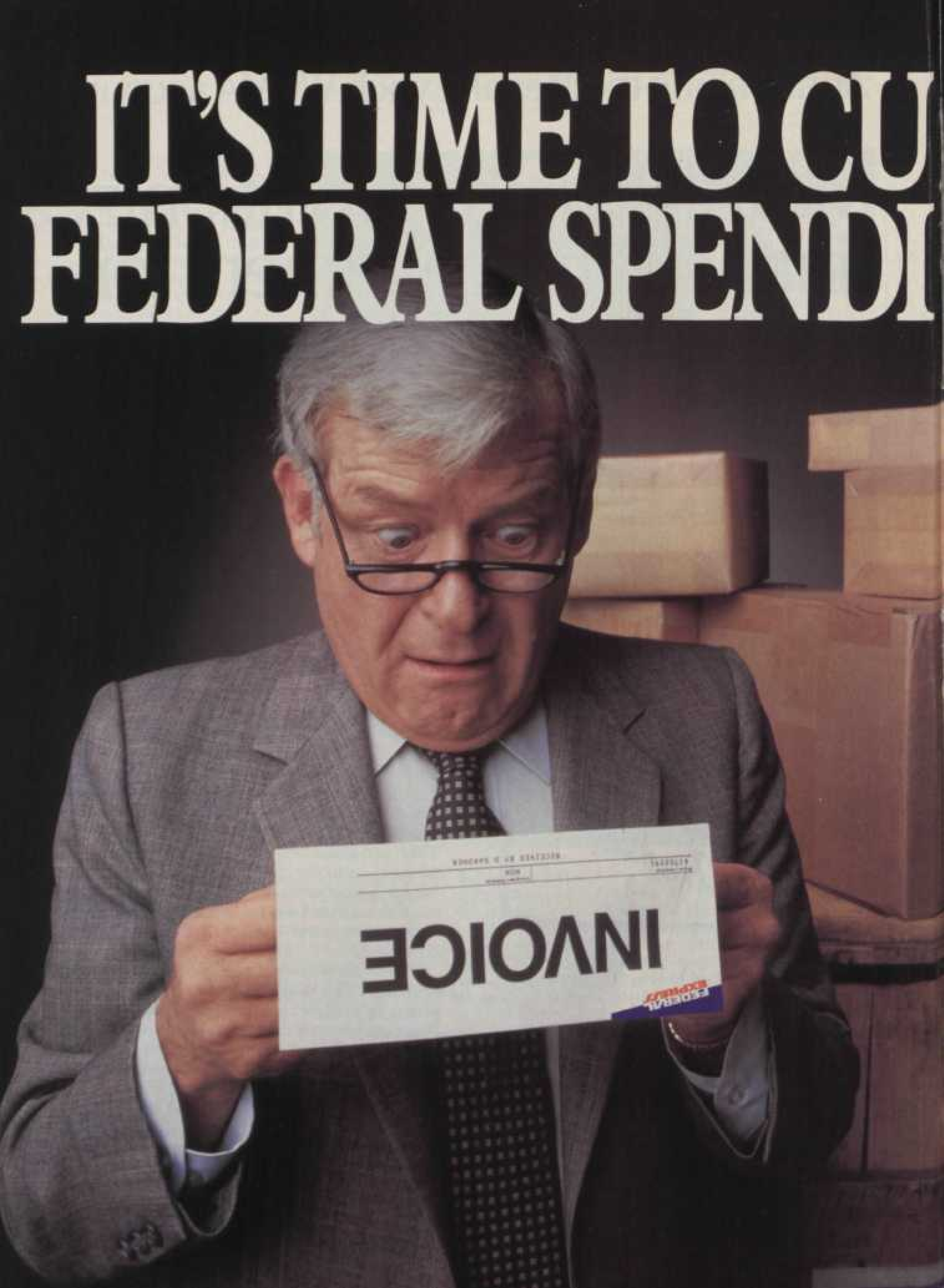
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"The key thing I hope we accomplish is that small business becomes more united," says Joseph A. Castillo (left), a blueprint company owner and Arizona delegate, who is pictured with his son, Steve. "If we could come together, we could do anything," says delegate Mike Goffin, a furniture store owner from Boise, Idaho.

PHOTO: DON STEVENSON

PHOTO: CHUCK CHRISTESON

lowing is a summary of the key positions adopted in each issue area.

Economic policy. The key issue was deficit reduction and a balanced budget. The conference endorsed a 15-bill legislative package designed to implement a number of budget-cutting measures recommended by the Grace Commission, officially known as the President's Private Sector Survey on Cost Control. Other recommendations called for small business advocates on national policy councils and rejected administration proposals for weakening antitrust laws. The most innovative suggestion advocated establishing a national commission to study the impact of services, information and emerging technology on the American economy. (See Nos. 4, 25, 29, 39, 40, 47, 50, 51 and 59 in the article that follows.)

Education and training. A call for entrepreneurial education and instruction in foreign languages topped the list, followed by a proposal for a coordinated national effort to solve the illegal drug problem. Business also wants tax incentives for training new employees. (See Nos. 6, 17, 33 and 34.)

Finance. Proposals to ease widespread difficulties in raising or borrowing money dominated. The lead recommendation also urged tax incentives for investing in small business. Delegates also want tougher laws governing commercial credit to prevent discrimination against women and minorities, and stricter bankruptcy laws. (See Nos. 11, 19, 27, 37, 42, 49, 57 and 58.)

An agency for small business. In addition to maintaining the SBA's independence and elevating it to cabinet level, delegates want continuation of minority set-asides, larger guaranteed-loan limits and a stronger Small Business Development Center program. (See Nos. 13, 45, 52, 55 and 60.)

Innovation. Delegates want to make permanent the Small Business Innovation Research Program and more than double research set-asides for small firms. They also want tougher enforcement and reforms in patent and copyright laws. (See Nos. 14 and 15.)

International trade. Concern over foreign competition prompted the conference to make creation of a cabinet-level department of international trade a top recommendation. Delegates also want more flexibility in laws governing business dealings with foreign officials and companies, and creation of a small business export program. (See Nos. 5, 30 and 35.)

Liability. The top conference recommendation called for a return to a fault-based standard for liability, elimination of joint and several liability, and a cap on attorneys' fees. It also called for bringing the insurance industry under tighter federal regulation. Further down the list was a recommendation to allow small businesses to self-insure with pretax dollars. (See Nos. 1, 9, 41 and 44.)

Payroll costs. Opposition to federally mandated employee benefits topped the list, followed by repeal of the Davis-Bacon Act, reform of the Social Security System and a moratorium on federal changes in private pension plan laws. Delegates also rejected the idea of comparable worth, which purports to offer workers equal pay for jobs of equal worth. (See Nos. 2, 7, 8, 20, 26, 31, 38, 53, 54 and 56.)

Procurement. Small business wants a larger share of federal procurement dollars and appointment of a commission to reshape procurement policies. The conference also favored continuing small business set-asides and strengthening legislation requiring prompt payment by federal agencies. (See Nos. 18, 28, 32, 43 and 48.)

Regulation. Delegates demanded regulations and legislation to curb unfair competition with small firms by nonprofit, tax-exempt organizations and federal or state government agencies. The conference also urged removal of legal barriers to home-based business, and condemned bilingual education programs. (See Nos. 3, 10, 21 and 46.)

Taxation. Pending tax reform proposals dominated this issue. The conference called for a capital gains tax favorable to small business, retention of investment tax credits, and no retroactive abolition of current tax breaks. Another recommendation called for eliminating taxes on transferal of a small business to a family member. (See Nos. 12, 16, 22, 23, 24 and 36.)

Whatever comes of this year's recommendations, delegates want a return engagement in four years to update the small business political agenda. Mindful of the flap over scheduling, recommendation No. 50 states that the 1990 White House Conference on Small Business should be held "while Congress is in session."

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COVER STORY

Small Business: What's Next

Sen. Robert Kasten, an outspoken advocate of federal product liability reform, talks with delegates after addressing a standing-room-only breakfast session at the conference. He urged their support for legislation pending in the Senate.

What They Want Congress To Do

PHOTO: T. MICHAEL KEZA

These are summaries of the final 60 recommendations to Congress made by the 1986 White House Conference on Small Business. They were the top vote getters of 371 recommendations proposed to the conference as a result of a series of state meetings. The total number of ballots cast by the delegates was 1,715; the number of votes for a recommendation is given in italics.

1. Enact sweeping reforms affecting liability insurance in four areas. Under civil justice reform, return to a fault-based standard of liability, severely restrict joint and several liability (which permits any one defendant to pay the full damage award regardless of degree of fault), limit noneconomic (pain and suffering) damages to a maximum of $250,000, restrict punitive damage awards to cases involving willful and malicious conduct and impose a statute of limitations on all civil liability actions. Also, enact uniform federal standards for product, professional and commercial liability; consider regulating the insurance industry at the federal level; and educate the public about the negative social impact of the liability crisis. *1,419.*

2. Reject government-mandated employee benefits, such as employer-paid health benefits, parental leave and disability leave. *1,360.*

3. Prohibit all government and nonprofit, tax-exempt organizations from competing with private firms. *1,267.*

4. Fix the constitutional flaw in the Gramm-Rudman-Hollings balanced budget law and adhere to its goals. Pass a balanced budget amendment to the Constitution; give the President line-item veto authority; and enact the Grace Commission's budget-cutting recommendations. *1,175.*

5. Create a cabinet-level department of international trade. *1,173.*

6. Encourage the teaching of entrepreneurship and the free enterprise system beginning with the elementary grades. Promote teaching of foreign languages. *1,161.*

7. Repeal the Davis-Bacon Act and the Service Contract Act. *1,156.*

8. Reform the Social Security system and eventually replace it with a private system. *1,152.*

9. Enact the product liability bill awaiting Senate action (S. 2760) with amendments eliminating joint and several liability and providing for uniform fault defense. *1,146.*

10. Make the Internal Revenue Service accountable under the Equal Access to Justice and Regulatory Flexibility acts, and financially accountable for errors. *1,137.*

11. Develop new federal and state capital formation and retention vehicles for small business. Offer new tax incentives for investment in small business. *1,109.*

12. Enact a capital gains tax break for investing in small business or an individual retirement account. Create special tax breaks for sale of a small business. *1,075.*

13. Maintain the Small Business Administration as an independent agency and elevate its administrator to cabinet level. *1,051.*

14. Reauthorize and strengthen the Small Business Innovation Research Program. *1,043.*

15. Modify and strengthen laws governing patents, trademarks and copyrights. *1,034.*

16. Restore the investment tax credit for new and used equipment for businesses with fewer than 500 employees. *972.*

17. Work to control the illegal drug problem through joint efforts by government, business and schools. *964.*

18. Increase small business contract set-asides to 35 percent of all federal contract dollars by 1990 and create a blue-ribbon commission to study how to achieve this. *948.*

19. Enact pending legislation to ensure equal access to commercial credit for small business owners. Require banks and other lenders to disclose why they turn down a business loan application. *931.*

20. Declare a five-year moratorium on changes in private retirement plan laws with several exceptions, including restoration of the $2,000 IRA deduction and the $30,000 annual ceiling on 401(k) contributions. *861.*

21. Eliminate government restrictions on home-based business. *858.*

22. Permit the cash basis method of accounting for tax purposes for all small businesses. *827.*

23. Do not tax the first $200,000 of business earnings at the highest corporate level—34 percent under proposed tax reforms—but at lower, graduated levels proposed for companies earning less than $75,000 a year. *788.*

24. End federal estate and gift transfer taxes on transferal of small business assets to a family member. *774.*

25. Establish a national commission to study the impact of services, information and emerging technology sectors on the U.S. economy. Ensure proper classification of all service businesses under Standard Industrial Classification codes. *766.*

26. Cap taxes on employee benefits at existing levels. *720.*

27. Enact pending legislation to create small business participating debentures. *696.*

28. Require that not less than 40 percent of all federal procurement funds go to small business, not less than 10

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Frank J. Clark
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This Virginia delegate was not alone in her concern over competition from nonprofit organizations. The issue ranked No. 3 on the final list.

Delegates in the taxation session wait their turn at the microphone to comment on recommendations. The 60 proposals in the final conference report emerged from two days of debate and amendments in 11 different topic discussion groups.

PHOTO: T. MICHAEL KEZA

PHOTO: T. MICHAEL KEZA

percent be awarded to minority businesses and not less than 5 percent go to women-owned businesses. *683.*

29. Implement the 15-bill Grace Commission legislative package introduced last June. *673.*

30. Change the Foreign Corrupt Practices Act by stating that business payments expressly permitted by law, custom or regulations of a foreign country will not be unlawful. *666.*

31. Amend federal unemployment insurance law to prevent strikers from receiving benefits. Require claimants to actively seek work and accept the next best job after eight weeks of job search. *654.*

32. Eliminate the 15-day grace period in the 1982 Prompt Pay Act. *652.*

33. Create an incentive program to encourage the training and retraining of new employees by small businesses. *628.*

34. Develop with business, state governments and schools an educational program on the free enterprise system. *614.*

35. Develop a small business export incentives program. *600.*

36. Prohibit retroactive application of tax reform legislation when it adversely affects prior transactions. *597.*

37. Toughen federal bankruptcy laws. *584.*

38. Standardize and simplify federal payroll reporting. *576.*

39. Adopt a basic economic policy to remove obstacles to free enterprise, including phasing out all government pricing, production and export controls currently imposed on business. *560.*

40. Phase out farm price support programs and government crop production controls. *557.*

41. Permit small business to use pretax income to establish self-insurance funds. *543.*

42. Encourage the use of semipublic loan and guarantee corporations to meet capital needs of small firms. *533.*

43. Maintain the "rule of two" regulation favoring federal contract set-asides for small business. *531.*

44. Enact a uniform national product and general liability law that bases liability on fault and eliminates joint and several liability. *487.*

45. Retain the Small Business Administration and elevate it to cabinet level, while evaluating current programs for efficiency. *484.*

46. Declare English the official language of the United States and phase out most bilingual programs. *467.*

47. Enact line-item veto authority for the President. *453.*

48. Create a new, simplified acquisition system for federal procurement of professional and technical services. Preclude federal agencies from establishing new research and development centers unless the private sector cannot handle the work. *437.*

49. Authorize formation of small business reinvestment corporations to obtain capital from private and public pension plans for investment in small business. *435.*

50. Schedule a 1990 White House Conference on Small Business while Congress is in session, with subsequent conferences every four years. *431.*

51. Place small business advocates on all appropriate national policy boards, including the Council of Economic Advisers. *430.*

52. Maintain and strengthen the Small Business Administration's minority contractor set-aside program while expanding the number of firms participating in it. *413.*

53. Reject the concept of comparable worth as contrary to free enterprise. *408.*

54. Repeal the provision of the National Labor Relations Act that makes it an unfair labor practice for employers to discriminate against employees and job applicants based on union affiliation or sympathies. Amend the Hobbs Act to make violence in labor disputes a federal crime. *395.*

55. Maintain and expand existing Small Business Administration guaranteed loan programs. *390.*

56. Defeat proposed legislation that would prevent businesses, primarily construction companies, from operating separate union and nonunion divisions ("double breasting"). *391.*

57. Tax new debt security issues at a rate of 1 cent per $10 to create state administered pools of money for small business loan guarantees. *377.*

58. Maintain the tax-exempt status of interest paid on industrial revenue bonds. *367.*

59. Reject Reagan administration proposals that would weaken antitrust laws. *347.*

60. Strengthen and expand the Small Business Development Center program. *319.*

Solidarity Of The Sexes

Nearly one third of the delegates at the recent White House Conference on Small Business were women, reflecting the growing presence of women entrepreneurs in the U.S. economy. Women are starting businesses at twice the rate of men and at the current pace will own half the nation's small businesses in the year 2000—double today's share.

Women owned 2.9 million businesses in 1982 (the latest Census Bureau figures) and registered gross receipts of $98.3 billion—one tenth of all business earnings. Nearly three out of four women-owned firms are in services and retail trades (see chart).

Since the last White House Conference on Small Business in 1980, women have started more than 500,000 enterprises, according to Internal Revenue Service figures. And they increased their representation at the conference to 29 percent from 15 percent six years ago.

Women attending the conference were concerned about the same issues as their male counterparts: liability insurance, parental leave, economic policy, government paper work and procurement. Unlike in 1980, there was no separate discussion group on women's issues. "The problems of women business owners are mainstream problems, not separate issues," says delegate Susan Winer, who owns a financial services company in Chicago.

Solidarity of the sexes was clearly demonstrated as business owners took a stand on the conference's No. 2 issue: parental leave. Both men and women attacked proposed federally mandated parental time off from work to care for infant children. Ironically, it is the increasing number of women in the work force that has elevated government and corporate concern about accommodating work and family demands.

The proportion of children living in families where both parents—or the sole parent—were in the work force rose to 59 percent this year from 53 percent in 1980, according to Labor Department figures.

While women disclaimed special issues at the conference, they did emphasize several "that have particular relevance," says Mary Richie, president of a Des Moines marketing and communications firm. Chief among them are overhaul of the Standard Industrial Classification codes, creation of a blue-ribbon commission on services and improved access for women to commercial credit. All three concerns were incorporated into conference recommendations.

SIC codes were first developed in the 1930s as a system for standardizing the classification of industries for government data collection. Today they are used for much broader purposes, including private sector marketing, policy formulation and strategic planning. "The problem is that most of the codes relate to manufacturing rather than services, but the service sector now accounts for about two thirds of the GNP," says Richie. The result is a shortage of information on the service sector of the economy. Women business owners are acutely aware of this problem because most operate service companies. But the situation soon will improve.

The Office of Management and Budget is conducting a review of the 1,005 four-digit SIC codes and plans to have a revised classification system in place January 1. The revision, the first major change since 1972, will include 79 new industry classifications, of which services account for 18. Codes for 78 declining industries will be merged into other classifications.

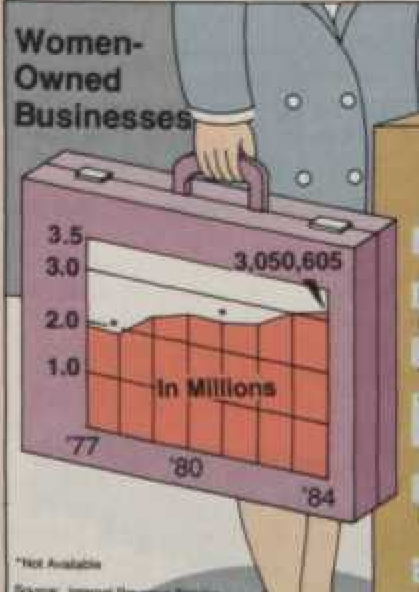
Leaders of the National Association of Women Business Owners have led the push for a national commission to study changes in the economy brought on by rapid growth in services, communications and technology. The commission would review regulatory and legislative policies affecting these sectors and issue recommendations to facilitate their growth.

"SIC codes and a blue-ribbon services commission were not even known as issues a year ago, but NAWBO has pushed them into the public arena," says Mary Del Brady, president of the association.

Women also advocate legislation to require banks and other lenders to disclose in writing why they turn down a small firm's loan application. Disclosure currently is required only in personal credit transactions. "We feel we need to close this loophole to prevent discrimination against women and minorities," says Brady.

Brady's group has 35 chapters across the nation. It expects to attract hundreds of women business owners to Washington next April 5 for a day of lobbying for conference recommendations on Capitol Hill. "We knew the conference was just the beginning," says Brady. NB

A Record Number Of Women Entrepreneurs



*Not Available

Source: Internal Revenue Service

Percentage Of Female-Owned Nonfarm Sole Proprietorships

Industry Division	1977	1980	1983
All Nonfarm	22.6%	26.1%	27.5%
Agricultural Services	7.9	10.0	16.8
Mining	8.6	9.2	9.8
Construction	1.6	1.9	4.1
Manufacturing	11.4	18.0	22.1
Transportation	6.1	6.3	8.8
Wholesale & Retail Trade	28.3	32.6	37.3
Wholesale Trade	8.8	10.3	19.7
Retail Trade	31.9	36.7	39.5
Finance, Insurance, & Real Estate	25.2	33.8	31.9
Services	28.4	31.2	31.8
Not Allocable	20.9	17.5	20.3

CHART: DALE GLASGOW

SPECIAL REPORT

Revolution On The Road

Trucking—the companies that haul the goods and those that make what the goods are hauled in—is taking one new turn after another.

By William L. Smith

You might not think of space satellites in the context of America's trucking industry, but many a feet-on-the-ground trucker sees a sizable potential in them for the industry. Communication with trucks via satellite is on the way.

AAA Cooper, a Dothan, Ala.-based trucking company, already uses a satellite to transmit shipment information between its Miami and Dallas terminals. Company President Mack Dove sees the day when several carriers with hundreds of terminals will be using the system jointly—thus reducing communication costs sharply and providing more efficient service for customers.

But satellites are just one of many new communications services being put to use in the trucking industry. All are aimed at demands from customers for faster, more reliable service.

Most in the industry agree that customers are making tougher demands today than a few years ago, and Raymond A. Stewart, Jr., president of Yellow Freight, a large nationwide carrier, says far more than trucking is involved.

"I think this attitude is prevalent throughout the economy," he says. "There's a renewed emphasis on efficiency."

This emphasis on customer service gains strong support from Kenneth Younger, president of Carolina Freight Carriers, Cherryville, N.C. "We feel the customer is king—our whole company is geared that way," he says. "I think the customer is mainly interested in the carrier meeting his requirements—regardless of whether the freight is delivered by truck or dogsled."

Younger sees today's soaring insurance rates posing a threat to many carriers: "I'm afraid a lot of people are going to fall by the wayside."

That is already happening. A recent Dun & Bradstreet survey reported that 1,533 trucking companies failed last year—roughly six for each working day. In 1978 only 162 failed.

Faced with fierce pressure to survive and growing customer demands, trucking companies are offering many new services to attract and hold customers.

William L. Smith is a veteran Washington journalist who specializes in trucking developments.

Electronic dashboards, like the one in this Kenworth truck, give the driver more control over the truck's operations.

PHOTOS: KENWORTH TRUCK COMPANY

High on the industry's list is electronic data interchange, often referred to as EDI. It can virtually eliminate paper work in transactions between a shipper, the shipper's customer and the trucking company.

For example, a wholesaler's computer can send a manufacturer a request for a product quotation. The manufacturer's computer returns the quotation. If the wholesaler decides to buy, the purchase order, shipping notice and invoice are all sent to the manufacturer by computer. The manufacturer's computer sends the shipping information to the motor carrier. After pickup, the wholesaler can send the carrier a request for the shipment's status at any time.

One innovation attracting growing interest is "bar-coding," marking packages and whole shipments with those parallel lines so familiar on products in supermarkets. The idea is to speed up loading and unloading of shipments and consolidating of shipments on loading docks.

For example, a General Motors assembly plant has a special "just-in-time" gate that allows trucks using the bar-code system to proceed to a specially designated loading dock.

Meanwhile, there never has been a greater variety of vehicles for truck operators of all sizes to choose from. In addition, changes in engines and other components are practically revolutionary. All are aimed at meeting the needs of a restructured trucking industry.

Neil A. Springer, president of Navistar International—formerly International Harvester—says: "Those customers out there—the ones behind the wheel and the ones behind the adding machine—are in a vise just like we are. Their survival depends on our ability to keep them on the road and out of the shop."

One major change truck manufacturers anticipate is a flattening demand for the Class 8 tractor, traditionally the workhorse of long-haul trucking. No one is predicting the demise of the big tractors that power the 18-wheelers, but it is generally agreed their use will become more limited.

(Trucks are broken down into classes for official rating purposes. Class 8 refers to trucks with a gross vehicle weight of 33,000 pounds and up; Class 7, to vehicles of 26,000 to 33,000 pounds; Class 6, to those of 19,500 to 26,000; and Classes 3 to 5, to those of 10,000 to 19,500.)

Citing the depressed market for heavy duty trucks, General Motors announced in August that it is getting out of the business—closing its Pontiac, Mich., heavy truck plant. Instead, it will enter a joint venture with Volvo White,

part of the Swedish auto maker, producing heavy trucks at Volvo White's manufacturing facilities in Virginia, Utah and Ohio. The new firm, called Volvo GM Heavy Truck Corporation and with headquarters at Greensboro, N.C., will be 65 percent owned by Volvo White and 35 percent by GM.

In assessing the shifts taking place in truck manufacturing, Mack Trucks President John Curcio points out: "First of all, the huge trade deficit has hurt trucking more than most people realize. A lot less material is hauled in and out of U.S. plants today than in the past."

Also, he says, imports are delivered to central terminals where shipments are broken into smaller loads destined for individual customers—"a hub and spoke operation," he calls it—so "hauling is lighter. That's why we're looking into building a lighter Class 8."

Thomas Reimers, executive vice president-operations for Mitsubishi Fuso of America, a new Japanese entry in the U.S. truck market from the industrial giant Mitsubishi, sees no growth in the Class 8 truck market and says it may "trend down." Explains Reimers, a vet-

Sharing The Loads: One-Stop Shipping Services

Intermodalism. It is a word you often hear these days in the trucking industry. The idea of one-stop arrangements for shipping cargo via different modes of transport is one whose time seems to have come.

Interest in obtaining one-stop service is increasing. Brokers have long been available to arrange for intermodal service. But now there are new entrants among shippers themselves. Intermodal shipping controlled at a single source is on the rise.

Firms such as Federal Express and United Parcel Service have large fleets of planes to handle overnight shipments that are picked up and delivered by trucks. Other package delivery firms have deals with commercial airlines. Consolidated Freightways, one of the nation's largest trucking companies, has an air freight subsidiary working with a major airline.

A-P-A Transport Corporation, a large regional trucker based in North Bergen, N.J., has arrangements with other carriers to deliver freight on the West Coast as well as in Europe. The other carriers include railroads and shipping lines. Many smaller regional carriers say that, thanks to deregulation, they have been able to win contracts with railroads to pick up and deliver goods from rail terminals in their areas.

The big question remains: Will true intermodalism finally take hold any time soon? This means the full integration of transportation services into single systems or even single firms. Transportation experts have talked about it for years, but those who hold the key to its success—executives of railroads and trucking companies—have been reluctant to take the plunge. However, that may be changing.

Several major railroads have decided

Intermodal operations, such as this rail/truck combination in Nashville, Tenn., have turned transport rivalry into cooperation.

PHOTO: JOHN CORNS—CSX CORPORATION

to turn to trucks for the last legs of long-haul shipments. In some cases, trucking firms are working with railroads. In others, railroads are using trucks of their own.

CSX Transportation Corporation now bills itself as "America's first multimodal transportation company." In addition to operating the former Chesapeake & Ohio and Seaboard Coast Line railroads, CSX owns American Commercial Barge Lines and CMX, a trucking subsidiary. Company officials talk about how these intermodal holdings have allowed the railroad to expand services beyond the "core network."

The Norfolk Southern Railway bought North American Van Lines from PepsiCo last year. Generally considered a moving company, North American actually hauls large volumes of general freight and electronics. So far, the Norfolk Southern has been tied up trying to buy Conrail from the federal government and has not given much attention to the possibility of expanding North American. However, company officials concede that if the Conrail deal does not materialize, expansion of North American would become more "intriguing."

Another player is the Burlington Northern Railroad, which stresses it now features an "intermodal partnership." BN President and Chief Executive Officer Darius W. Gaskins, Jr., explains his firm's approach this way:

"Our company has made a conscientious effort to stop attacking everything the trucking industry is in favor of. We are concerned that trucks pay their fair share for highway maintenance, but we really don't want them to pay more than their fair share."

He explains that "as we become more and more of a partner with the trucking industry," the fact that truckers can lower their costs and operate more efficiently turns out to be in his company's interests, too.

Gaskins, a former chairman of the Interstate Commerce Commission, regulator of both railroads and trucks, also believes that trucking has softened its opposition to the railroads. He sees this change as "recognition of the substantial growth in relationship between railroads and trucks. Some of that was there all along, but in any case the traffic that has been affected by it has been growing rapidly."

—*William L. Smith*

Toughest Then Toughest Now

The new Mack Mid-Liner® CS

The AC "Bulldog" – 1915

The Mid-Liner CS

From the beginning, Mack has continued to prove its reputation as "The Greatest Name in Trucks"™ And no exception is Mack's new Mid-Liner® CS conventional. It boasts all the components and features that made its hard-working twin, the MS cabover, North America's #1 selling medium duty diesel.

Now, operators who prefer the conventional cab configuration can profit from the performance-proven power and economy of Mid-Liner's fuel-efficient turbocharged and charge-air-cooled diesel engines, aero-sculptured design and robust construction.

Low Life-Cycle Cost. A tradition with Mack. The Mid-Liner® CS is designed for your bottom-line delivery needs. Check the lightweight fiberglass hood, contoured for better fuel efficiency and exceptional visibility. And the CS offers one of the biggest windshields and glass areas in its class.

The exceptionally durable double walled, welded steel cab is rubber/shock mounted for comfort and quiet ride. And built to last.

At every turn, the CS conventional outmaneuvers the competition. Power steering is standard, as are front shocks, taper-leaf front springs and pilot-mounted wheels.

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For maximum performance from a mid-size conventional check into Mack's Mid-Liner® CS.

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Mack TRUCKS

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Special uses call for specialized designs. The GMC S-15 pickup (left) is built for small jobs. The Mack dump truck (right) has a cab-over engine, which allows for greater visibility.

PHOTO: GM TRUCK & BUS

PHOTO: MACK TRUCKS, INC.

PHOTO: FRUEHAUF

For quick loading and unloading, businesses are turning to automated curtainside trucks such as this one by Fruehauf.

eran of more than 25 years in U.S. truck manufacturing: "If you look at the Class 7 upward trend of the past few years, it has been at the expense of the heavier trucks."

Reimers does not go along with many in the industry who also see sales of models in the 19,500 to 26,000 pounds range declining: "I feel Class 6 sales will remain relatively flat. Dramatic growth will take place in Classes 3, 4 and 5. There's demand out there. Just-in-time deliveries, deliveries in urban congestion—I think that's the market for these classes."

James Bostic, president of Iveco Trucks of North America, a subsidiary of Fiat, the Italian auto firm, also is enthusiastic about the outlook for Class 3, 4 and 5 trucks. Bostic, whose firm specializes in those classes, predicted earlier that truck sales in that range would be up 60 percent this year. He now sees sales "doing a little better" than his prediction.

Bostic says the current popularity of these classes stems from the time more than 10 years ago when U.S. truck makers stopped offering models in that range. As a result, he says, customers such as retailers, wholesalers and beverage distributors either had to move up to trucks larger than they needed, or down, squeezing delivery operations.

In recent years Iveco and Japanese truck makers have filled the void, offering a wide range of models.

Peter Rupp, president of Freightliner, one of the largest U.S. producers of heavy trucks, is even more pessimistic than most of the rest of the industry about the future of Class 8's. He sees 110,000 units being produced this year—15,000 less than the industry consensus—and says: "I think that eventually one Class 7-8 maker will go belly up. It won't be Freightliner. We're here to stay."

Freightliner is owned by West Germany's Daimler-Benz, maker of Mercedes-Benz autos and trucks. Freightliner also handles sales of the medium-range Mercedes-Benz trucks sold in the United States.

Rupp says he is encouraged by an apparent trend for more buyers to think about performance and costs over the long run. That is needed, he says, to reduce pressures on selling price that otherwise will mean "there will be no money for research and development, and we will go the way of American shipbuilding."

Among other new developments, Fruehauf has a side-load trailer designed to meet the needs of just-in-time inventory management. With the touch of a button, the trailer's entire side opens in less than 60 seconds for access to the total cargo.

Leaseway has come out with a front-wheel-drive moving van, considered to be the first of its kind. It is designed for use in urban areas where maneuverability is limited.

Step into new vehicles, and the gadgetry seems endless.

A driver can stabilize a load with the push of a button. An on-board weighing system calculates loads so a driver won't be stopped at a weighing station

Iveco trucks are cutting fuel costs in half for 4 out of the top 5 overnights.

"In L.A. alone, Iveco trucks have reduced our fuel costs by $150,000 a year."

JOE TOWNLEY, EMERY WORLDWIDE

Day in, day out, Iveco trucks are saving money for overnight delivery companies like Emery Worldwide, Federal Express, Airborne, Purolator Courier—and over 10,000 other U.S. companies.

And they'll go on saving money for years to come because Iveco is the only truck that delivers a proven 15-17 MPG and comes with a 300,000 mile extended engine warranty. And all this is backed by a nationwide dealer network and an impressive 98% parts fill rate.

Iveco's superior performance might be news in the U.S., but it's legendary in Europe. For years we've been making trucks to meet the needs of a marketplace where fuel prices are double the U.S. level. Where long-term equipment retention is an economic necessity. Where narrow streets, tight turns and high-speed throughways place the highest demands on truck and driver.

In short, an Iveco performs like no other delivery truck in the world because an Iveco is engineered like no other truck in the world.

If you distribute goods and want to lower your operating costs, take a tip from the leading overnight delivery companies and consider Iveco. It could have a significant effect on your bottom line. Call us at 800-447-4700 to arrange for a free cost of ownership analysis.

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Revolution On The Road

Among its variations, the Ford cargo truck (left) can be built as a garbage or a refrigerated truck. The Iveco 2220T (right) is built for urban use, such as newspaper deliveries.

PHOTO: FORD

PHOTO: IVECO

PHOTO: FRANCIS REYES

PHOTO: NAVISTAR INTERNATIONAL CORPORATION

The U.S. trucking industry has room for foreign input, such as Volvo's engine plant in Dublin, Va. (left) and innovations for the future.

for being overloaded. Other systems keep check on fuel consumption, engine wear and fuel charges.

Kenworth has a computerized electronic dashboard with an electronic speedometer and tachometer. It also can find faults in the electronic engine control system.

Tripmaster III is now available from Rockwell International. This is the latest version of the aerospace and truck component firm's on-board computer recording system that features a "little black box" for helping to pinpoint causes of emergencies—a feature similar to the crash box used on commercial airliners.

Overshadowing all such developments is the arrival of the long-awaited electronically controlled heavy-duty diesel engine. It revolutionizes the way a diesel engine operates. Detroit Diesel Allison is now offering the system, and all major truck diesel engine makers—Cummins, Caterpillar, Mack—should have similar systems within two years.

The system's brain is an electronic control module in the vehicle cab. It computes the precise timing and fuel quantity needed for the engine to run as efficiently as possible and sends the proper commands to the engine.

An electronic governor maintains precise speed settings for all engine loads and can automatically change engine speed from maximum-load speed to no-load speed. A two-speed governor allows the engine to run at higher revolutions per minute in lower gears and at lower limits in high gears.

Detroit Diesel reports fuel savings of 10.15 to 10.81 percent using the system.

But that is only the beginning. When the system is refined, it will be possible to change engine horsepower by switching a memory chip in the electronic brain. The same truck that runs as a 400 horsepower tractor over mountain roads can be turned into a 250 horsepower city tractor.

There seems to be no limit to what electronic devices are available for use on trucks. However, some engineers doubt the trucking industry is far enough along in its understanding to take advantage of all that is available.

Stephen Humphrey, vice president and general manager of automotive electronics for Rockwell International, says that there has been a lot of talk about an electronics revolution in trucking, but so far it has been "damn slow and damn small. Even our experienced fleet operators are not very far along in deciding what they want. We are not developing new technology but applying existing technology. "I'm disappointed at how many industry executives are ignorant of how to save money [with electronics]."

Probably never in the history of U.S. trucking has there been a more exciting time—although for some a very precarious time. Old concerns about rate bureaus and ICC decisions have been replaced by just-in-time, intermodalism and new technologies. It is trucking's brave new world. ■

To order reprints of this article, see page 81.

Innovators

Breaking with preconceptions; the home-based entrepreneur of the year; management by bicycling around.

By Sharon Nelton

Breakthroughs With Out-Of-Character Leadership

ILLUSTRATIONS: BLISS BROTHERS STUDIO

Suppose you are a manager with a problem situation that looks impossible to resolve or improve. You have two employees whose personality conflict impedes productivity, for example. Everyone tells you they won't change.

Maybe it is time for you, as the leader, to step out of character. Doing so, say Linda and Kenneth Schatz, may give you the breakthrough you need to turn a situation around. The Schatzes, a husband-and-wife management consulting team based in Alexandria, Va., are the authors of *Managing by Influence*, a useful new book for managers from Prentice-Hall.

Their thesis is that, when you are a manager, "you can never not lead." You can lead consciously, planning all your moves. But you also lead by the things you don't do, your acts of omission. The leader must ask, "What did I do (or not do) to make this happen (or not happen)?"

Stepping out of character is one technique the Schatzes suggest as a way of leading people—and situations—to change.

For example, a manager the Schatzes call Jeff Peck, president of a grounds maintenance company, found he constantly had to intervene in issues involving two of his managers, Jim and Fred. "Their inability to work in harmony soured the rest of the company and set an example for behavior that Peck didn't want," write the authors.

Peck reviewed his own attitude and decided that the most useful point of view was to assume that he, not Jim or Fred, was the source of the problem.

He restated the problem, according to the Schatzes. "Instead of thinking, 'Jim and Fred just don't work well together,' he reasoned, 'In the past, Jim and Fred have not worked well together. How do I want the future to be? What have I done or not done to make it this way in the past?'"

He met with Jim and Fred individually, getting each to admit that he would like to have a better working relationship with the other and to commit to meeting the other halfway in working toward that goal. Then he brought them together to repeat their commitment to each other. When both agreed, Peck said, "And from now on, you can both count on me to work with you. I know that I've contributed to the difficulties you've had by not sitting down like this earlier." However, he also made it clear he wouldn't tolerate such difficulties in the future. "I've learned a lesson, and I know it's my job to have you two working well together, for the good of the company."

In taking such action, Peck first stepped out of character himself, discarding his old notions that Jim and Fred were at fault and that they would never change. Next, he asked Jim and Fred to step out of character and work for improvement.

Phil, a bank vice president, had given up on Irv, an auditor who was so adversarial that he had alienated all his colleagues. Phil even called him "the lonely auditor." But after some soul searching, Phil realized that as vice president and Irv's boss, he was permitting Irv to continue such behavior.

He used the same technique Peck did. He sat down with Irv, got Irv's commitment to change and promised that he would help.

Irv began to astonish his co-workers by praising others when a job was well done; he stopped blaming others all the time and took more responsibility for himself. Phil now calls him "the ex-lonely auditor."

Managing by Influence can be of particular value to the executive who makes use of all the techniques and exercises offered by the Schatzes. For example, they suggest, "Pick an unwanted characteristic about yourself, one that you've given up on the possibility of ever changing. Recognize how your limited point of view about yourself has hampered your progress." They advise relegating that characteristic to the past and asking yourself, "How do I want the future to be?" Then, they say, step out of character and try behavior that will help you create the future you want—keeping in mind that what you are doing is for a purpose larger than your own needs: the good of the company.


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1 STOP
2 LISTEN FOR TONE
3 DEPOSIT COINS
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U.S. COINS ONLY
COIN RELEASE
C&P Telephone
When you're looking for a public telephone, call on one you know. A C&P Public Telephone.
It's so dependable and so simple to use, it's just like calling on a friend.
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Mining For Nannies In The Midwest

This column noted in June that Record a Call, a Compton., Calif., manufacturer of telephone answering machines, would give $1,000 to the recipient of its first annual "Home-based Entrepreneur of the Year" award.

Sharlene Martin, the founder of Helping Hands, Inc., a service that finds live-in nannies for working mothers, is the winner of that award.

Martin got the idea for the business in 1983 after the birth of her son, Scott, when she wanted to return to her job as a flight attendant recruiter for American Airlines. Both her job and her husband's business required a great deal of travel, so she saw a live-in nanny as the only option. She soon learned that high-quality, live-in nannies are hard to find.

Reasoning that the Midwest was suffering a recession and that many young people there were in need of jobs, Martin placed an advertisement in a St. Cloud, Minn., newspaper and got 20 replies, many from well-qualified applicants.

She selected her own first nanny from a list of six finalists.

For about the next six months, she found herself helping to secure nannies for friends and "friends of friends."

"I was doing this out of the goodness of my heart for people I didn't know," she laughs. She finally realized she could turn her free services into a paying business.

Since she founded Helping Hands in 1984, Martin has secured 400 nannies for clients who pay $750 for each placement. Helping Hands was begun in Martin's guest bedroom, but she and her husband have since completed a 2,000-square-foot addition and renovation to their house so that Martin can continue to work at home. She now has two full-time employees besides herself and several recruiters around the country who work on commission.

Martin continues to mine the Midwest for nannies, because she gets such a tremendous response. The majority come from Iowa, Wisconsin and Nebraska, many of them from small towns or big college campuses.

"There's a certain attraction for young women from Omaha or Des Moines to come to Connecticut or New York," she says. "I don't think they'd feel the same way about going to Minneapolis or Aberdeen."

And she thinks such women are good for Helping Hands, too.

"Their values and their principles are strong," says Martin. "They tend to have been raised in a close-knit family environment. They usually come from a strong religious background and are usually one of several siblings. It is a very good profile for this kind of work."

Why does Martin think she was chosen for the home-based entrepreneurship award?

"First of all, I think it's the kind of business that has a social importance," she answers. "I'm helping working women be able to continue in the work force. I think I'm addressing a very important need."

She is also sure the fact that her sales grew 380 percent from her first full year of business to her second had something to do with the judges' decision.

10-Speed Management

While some executives practice MBWA—management by walking around—Angel (Angie) M. Echevarria has instituted MBPA—management by pedaling around.

He is founder and president of the Somma Mattress Company, a $40 million-a-year Los Angeles firm that makes waterbeds composed of 5-gallon vinyl cylinders instead of large single water chambers. His invention eliminates the "wave action" of waterbeds and virtually does away with leakage. The Somma mattress is sold by many retailers around the country.

But his inventiveness is not limited to mattresses. Almost any day, you can see the Puerto Rican-born company chief riding from department to department at Somma's 16-acre headquarters on his 10-speed bicycle, the vehicle he favors over a more common mode of in-plant executive transportation, the golf cart. "I don't allow golf carts here because that's a lazy man's way of doing things," he says.

Echevarria contends that his bicycle enables him to keep in closer touch with his employees. "I think I manage my company by my very presence," he says. He estimates that he rides about seven miles a day, but part of that is outside the plant on the street, where he goes for exercise.

A golf cart is more ostentatious and can set up a barrier between an executive and employees, he says. But he believes his bicycle helps employees "feel that I'm one of them."

"I want employees to know that we're all doing this together," he adds.

More than a half-dozen other senior and middle managers have also taken to pedaling around the Somma plant.

"They did have a choice," says Echevarria. "It was either ride or walk."

United Kingdom

London's Docklands (below left) may be the largest urban redevelopment project in history. It symbolizes the increasing investment appeal of a nation that mixes scenes unchanged for centuries in the countryside with modern capabilities. Progressive new government attitudes and an improved labor climate beckon U.S. business.

PHOTO: DOCKLANDS

PHOTO: INVEST IN BRITAIN BUREAU

PHOTO: BRITISH TOURISM BOARD

Many American investors see the United Kingdom as a land of striking workers, crushing corporate taxes, stifling government regulation, low productivity and rampant terrorism in the province of Northern Ireland. These images are partially responsible for the fact that the British (whose gross national product is one-seventh that of the United States) have invested $38 billion in our economy, compared with the $32 billion Americans have invested in theirs.

British industrial development authorities say Americans are slow to recognize dramatically improved circumstances in England, Wales, Scotland and Northern Ireland, Britain's four regions.

It is true that the postwar economies of Japan, South Korea and West Germany, for example, have undergone revolutionary transformations by comparison. But the British have not been idle—indolence is not in keeping with their traditions. After all, they were the Japanese a full century before the Japanese were the Japanese. The industrial revolution began on their green, misty isles.

Britain has gone through its period of socialism and has emerged with tough, pragmatic policies for an economy that is 70 percent driven by private activity. The same rugged innovativeness that made the United Kingdom the first world-class economy is back in evidence.

A reputed laggard in high technology, Britain actually boasts ownership of more personal computers on a per capita basis than any other country. It is Europe's biggest consumer of integrated circuits. And it is second only to the United States in its number of data communications terminals. Britain's is definitely an on-line economy.

"Every primary school in our country has a computer," says Malcolm Day, deputy director of the government's Invest in Britain Bureau. "We are producing a computer-literate nation."

Day is in charge of a government campaign to attract American investors to Britain. American impressions of the British economy, he says, are at least five or six years out of date. "Our image problems arise from an outdated view of our labor and taxation," he says. "U.S. industrialists and other investors still look at our labor with some suspicion. They still feel we are strike-prone. There is a hidebound view that our unions control industry. Last year we suffered the lowest number of strikes in 35 years."

Britain "still has the reputation of being a high-tax country," Day continues. "That's also five or six years out of date. Americans still remember our corporate taxes of 50 and 60 percent. Now our cor-

porate tax is 35 percent—the lowest in Europe."

Britain, Day observes, has undergone a period of government deregulation under the administration of Prime Minister Margaret Thatcher that is comparable to policy changes in Washington during recent years.

"For example, you can now repatriate your profits freely," he says.

Day and other Invest in Britain Bureau staff members also produce statistics showing that Britain:

- Spends impressive sums on research and development, trailing only the United States and West Germany, and just ahead of Japan.
- Charges companies significantly less for natural gas and electricity than they would pay in the United States and West Germany.
- Loses fewer working days per 1,000 employees than the United States and Canada.
- Has a manufacturing work force whose pay scales are substantially lower than those in the United States, Canada, West Germany and the Netherlands, and only slightly higher than those in Japan.

Crest-of-the-wave biotechnology and other high tech activities are supplanting traditional manufacturing industries like coal and steel.

PHOTO: INVEST IN BRITAIN BUREAU

A recent British survey showed that 28 percent of American electronics companies building plants abroad chose Britain as their foreign base. The same survey showed that work force quality was the deciding factor for 60 percent of these firms.

Says Kaspar Cassini, president of IBM Europe, "Our Greenock and Havant manufacturing facilities have an excellent reputation in the IBM Corporation and compare favorably on cost, productivity and quality with other IBM plants in, for instance, the United States and Japan."

In labor costs, says Invest in Britain Bureau's Day, "we can't compete with Taiwan, South America or the Philippines. But we are competitive in Europe."

This is a central point to Britons' argument that theirs is the best country for American investors seeking a European marketing base. American firms can more than double their market by locating in Britain, which is within hours of the 350 million people of Western Europe.

Britain's domestic economy is making great strides in so-called "sunset industries." These include the offshore oil and gas industries, where the British have gained new insights as the result of North Sea oil exploration and production efforts. They are also achieving breakthroughs in electronic and microelectronic areas and in robotics and fiber optics. The greatest concentration of semiconductor manufacturers in Europe is in Britain.

Newcomers to foreign investment and trade will, by locating in Britain, be able to take advantage of all the liberalized trade benefits native British firms have in their dealings with fellow members of the Common Market and the larger European Free Trade Association. It is almost the same as a Georgia-based British subsidiary doing business in Florida.

There are more than 100 direct daily flights between New York and London, 117 between Paris and London and 75 between London and Frankfurt. Goods can be delivered from Britain to any location in Western Europe within a day. Dover, Britain's chief port, handles over 100 sailings a day, and there are 18 other major British ports servicing Europe and the world. No spot in Britain is more than 75 miles from the sea.

Forming a partnership with British business people could be a wise decision for American firms that are in the early stages of going international. Britain's trading culture is many centuries old. Trade has worked its way into the whole texture of the British economy. More than

We can handle it. Automatically.

The USA and Britain are together on the leading edge of robotics and automation technology. World-renowned Unimation Inc. is the longest established manufacturer in the robot market. The company has found in Britain, already the world's fifth largest user of robots, an ideal environment for high tech development.

Chester Sadlow, Chairman of Unimation, discussing one of the latest additions to the Puma family of robots manufactured at Telford in Britain, says, "We regard the quality challenge as all-encompassing. Our dedicated and talented work force here ensures that the challenge is met. And over 98% of all Puma components are of U.K. origin."

Experience and expertise in the "sunrise industries" are among Britain's most valuable assets. These factors, with a pro-business government, low taxes and tariff-free access to a European market of 350 million, help make Britain the preferred location for American business in Europe. And it's a terrific place to live and work.

For information on locating or expanding in Britain, call your nearest British Consulate as listed below, or Nick McInnes in New York (212) 593-2258. Or just clip your business card to this ad and send it to us: Invest in Britain Bureau, British Consulate-General, 845 Third Avenue, New York, N.Y. 10022.

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Chester A. Sadlow, Chairman, Unimation Inc.

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one third of its gross national product is exported, compared with 6 percent of America's.

In addition to Britain's superb economic channel to the Continent, it has strong traditional trading connections with the Commonwealth nations in Asia and Africa. These developing nations are becoming large markets themselves for both industrial and consumer goods. India alone has a middle class estimated to be greater than 70 million people.

Britain exports to these Third World nations more than $20 billion annually in food products, chemicals, manufactured goods and machinery. Britain could also become a gateway to the Middle East market, which it has historically served.

Investors will also find that Britain offers handsome inducements to foreign firms wishing to set up shop. They include: capital costs subsidies; support for industrial research; regional development grants and incentives; training assistance; aid for tourism development; assistance in locating customers, dealers, partners and business services; and enterprise zones. Britain will also help arrange low-cost loans through its own banks and Common Market institutions. It will arrange for low rents for factories under certain circumstances and even rent-free factories in some cases.

A recent major British project is London's Docklands. It is perhaps the largest urban redevelopment project in history—worldwide. It has already attracted more than $1.5 billion in investments and is only in its earliest stage of development. Built along 55 miles of water's edge, once the largest port in the world, Docklands was abandoned when its facilities became antiquated in the 1960s. The government is renovating wharves and warehouses and granting licenses to private firms for construction of industrial, commercial, recreational, residential and tourist facilities. It is fast becoming an inexpensive location for manufacturing and commercial activities close to London and near the new London port just down the Thames.

Already, more than 300 companies have moved into Docklands. More than 8,000 homes and miles of new roads and fiber optic ducts for high tech communications have been built there. There is a proposal for a 10 million square foot financial services center, with employment for 50,000 people, on one site, Canary Wharf.

Docklands' estimated $19 per square foot for office space compares favorably with London's average $53 per square foot.

On strictly economic grounds, the most generous investment inducements in Britain are given in Northern Ireland. Despite Ulster's widely publicized civil strife, it may be the best industrial locale in Europe.

Northern Ireland may suffer more from adverse publicity than from the excesses of its political factions. An agency known as the Industrial Development Board of Northern Ireland is working hard to replace impressions with facts.

Says John Dowdall, the board's deputy chief executive, "I try to get Americans to visit, because once we can actually get

them here, they see there is general normality in Northern Ireland." He adds: "Because we have the political image we have, the British government has made us a priority and allowed us to offer a level of financial incentives higher than anywhere else in the United Kingdom. So our political problem creates an economic opportunity for any company that can look beyond our problem."

Brian Musgrave, one of the board's top salesmen, says with pride, "We haven't lost a single company due to the troubles."

The violent clashes between Catholics and Protestants in Northern Ireland are vivid images to anyone in the world with a television set. And yet, board statistics show, the murder rate in 1981 was significantly lower in Northern Ireland than it was in many major American cities. Board figures show that the rate was 7.8 per 100,000 people in Northern Ireland, compared with 42.1 in Detroit, 35.1 in Washington and 18.2 in San Francisco—and an average of 23.5 for the American population as a whole.

Northern Ireland, about the size of Connecticut, is a country of emerald hills and quaint villages. It is also one of the wellsprings of the British industrial revolution, with a long history of manufacturing and trade. It produces cottage crafts and airplanes and energy equipment and automobiles and numerous other goods you would expect from a highly diversified economy.

"Judge us on the facts," is the board's slogan. Consider the following:

- Northern Ireland's work force of 640,000 lost little more than one hour per employee in 1982 as the result of labor disputes.
- Its worker productivity was noticeably higher than Britain's as a whole in a 1982 study.
- About one fifth of its labor pool is readily available for recruitment.
- The average hourly cost of industrial labor in a 1983 study that included fringe benefits was $6.03 in Northern Ireland compared with $7.11 in Japan, $9.03 in Germany and $11.73 in the United States.
- Northern Ireland has five major international ports and modern roll-on, roll-off facilities.
- Its financial inducements include: rent grants up to 100 percent for the first five years of operation, 30 to 50 percent grants for the cost of a building, employment grants for workers hired—plus training grants and management incentives grants, research and development grants, tax allowances, corporate tax relief of up to 80 percent for the first 20 years of operation and government loans for capital and operating costs.

There is spirited competition for American investments at the local level throughout Britain. The Welsh city of Newport is in the forefront. It is favored with a major port facility and easy access to Motorway 4, one of Britain's main road arteries. It is no more than 30 minutes from Bristol and about 90 minutes from London.

The cost of doing business in Newport is substantially lower than in Bristol or London. Office space, for example, costs about $2.70 per square foot.

Says Newport investment expert Louis Chicot, "It is a good area for multinationals with the European Community market in mind. Many have considered the whole of Europe but have chosen South Wales—in particular, Japanese companies like Sony, Matsushita Electric, Sekisui, Aiwa, Yuasa Battery and Orion Electric. All have found the unions reasonable in negotiations over working practices. The communications and distribution network for the United Kingdom, the European Community and international destinations is hard to beat."

P.M.R. d'Adhemar, director of Lloyd's Merchants Bank of London, says that by exporting to Britain or setting up enterprises there, American firms will achieve greater economies of scale and reap the benefits of a vast new market on the other side of the Atlantic.

He also advises American firms to find a qualified local partner who understands the market, the conditions of production and government regulations. Then, he says, American companies should be realistic in deciding what products will sell well in the British market.

"Forget trying to sell American cars in England," he advises. "Instead, firms should concentrate on high tech goods and software and consumer-oriented wares."

The bottom line is: Should you invest in Britain? Banker D'Adhemar usually asks the numerous American firms he represents: "Can you afford to be left out of a market of 350 million people?" ■

No Relief From The Liability Crisis

Some states have undertaken comprehensive reforms of liability law, but most others have taken a piecemeal approach.

By Joan C. Szabo

The liability insurance crisis is far from over, and there is a difference of opinion over whether it is easing. As the debate goes on, comprehensive civil justice reform remains a top priority for businesses of all sizes.

Although some insurance companies say there is evidence of a slight improvement in availability of coverage, many businesses say they are experiencing as much difficulty as ever with the two "a's"—availability and affordability.

"We have heard nothing but continued bad news," complains Howard J. Bruns, president and chief executive officer of the Sporting Goods Manufacturers Association, a group representing 5,000 manufacturers. "Renewal rates are just as astronomical as last year's."

Derrick Crandall, president of the American Recreation Coalition, a Washington-based federation representing more than 100 recreation organizations, agrees. "We anticipate another round of premium increases," he says. "I'm not sure insurance is any easier to get or any cheaper."

"The liability insurance crisis is not receding," declares Gaylord Staveley, owner of Canyoneers, Inc., a small outfitter in Flagstaff, Ariz., that offers white-water raft trips through the Grand Canyon.

Staveley's company faced possible closure last summer due to cancellation of a master liability policy that provided coverage to 500 outfitters in the National Forest Recreation Association. Staveley is also president of the association.

Unable to "go bare"—forgo coverage—because the outfitters operate on federal lands and are required by Uncle Sam to have a specific amount of liability insurance, the members of his association finally located a stopgap policy that provides limited coverage of $300,000 for each qualified outfitter. Staveley says he is not sure whether the government will allow the group to keep this program next year, because the federal coverage requirement is usually in the $500,000 to $1 million range.

For Frances Shaine, chairman of SPM Manufacturing Corporation, a small Massachusetts producer of office supplies, "nothing has changed—our general insurance costs have risen," she says.

Gaylord Staveley is owner of Canyoneers, Inc., a small outfitter that conducts white-water raft trips through the Grand Canyon. He says he expects to go through the "same panic all over again" when he tries to renew his liability insurance.

Still, insurance representatives say there are signs, however slight, that the worst of the crisis may be over. "We are starting to see some inklings on the availability side," says Tom O'Day, assistant vice president and government relations officer for the Alliance of American Insurers. But, he adds, "we still have big problems with affordability." And he believes the crisis will not really begin to recede until more of the states enact comprehensive tort reform. Under civil law, a tort is a wrong inflicted by one person against another.

One reason for the subtle shift toward availability, insurers say, is the fact that more insurance companies are financially able to take on new business for the first time in several years. Recent figures for the first quarter of 1986 show an improving financial picture for the property and casualty insurance industry.

"Companies can begin writing new business now because they have strengthened their reserves, rebuilt surpluses and increased rates to where they're adequate for risk exposure," says Leslie Cheek III, vice president for federal affairs at Crum & Forster Insurance Companies.

Robert J. Murphy, senior vice president of Alexander & Alexander, Inc., a large insurance broker, agrees with Cheek's assessment on availability. "But corporations with a very high risk exposure will continue to have a problem with availability," he says. This would include trucking, pharmaceutical, chemical, medical devices and automotive parts companies.

As far as the cost of general liability insurance is concerned, Murphy expects some small improvement. "A normal manufacturer won't see the same type of percentage hikes he has in the recent past."

Both companies that sell insurance and companies that buy still agree that extensive civil justice reform would be the most effective way of ending the liability problem. That is because they

No Relief From The Liability Crisis

believe recent expansion of state tort laws by the courts is the source of the trouble. State reform developments are important not only to large companies that operate outside their home states, but also to many small and medium-sized companies. Most manufacturers and even some service firms in those size ranges operate in many different states—sometimes all 50—and are subject to the laws of those states.

One major aim of the state tort reform push is a return to a fault-based liability standard. (For a list of reforms sought, see page 72.) Reform proponents say the current practice of holding "deep pocket" defendants—those with ample resources—liable beyond their actual fault has resulted in an explosion in the size of liability awards. The practice is also known as joint and several liability. This, in turn, has brought about huge losses for insurance companies and an inability to assess risks.

Statistics from the Insurance Services Office, a New York-based advisory, rate making, statistical and research service organization for property and casualty insurance companies, show that paid losses for commercial liability insurance grew 179 percent from 1979 to 1985 and that general and medical professional liability paid losses were up 234 percent for the same period.

Insurers reacted to the fat awards by raising premiums, in some cases by triple digits, or canceling coverage for certain industries. Another reason for the higher premiums is the fact that insurance companies engaged in competitive rate-cutting in the early 1980s. This was done, critics charge, at the expense of sound underwriting principles. As losses overtook investment returns in 1984, companies began boosting rates to bring them in line with foreseeable risks.

Strongly opposed to the drive to reform state tort laws are the trial attorneys and some consumer groups. They are pushing for more stringent control of the insurance industry, which they charge brought on the problem because of mismanagement and erratic pricing practices. The tort laws are not to blame, they claim, and any tinkering with the current system will do untold damage to an individual's rights to sue and obtain compensation.

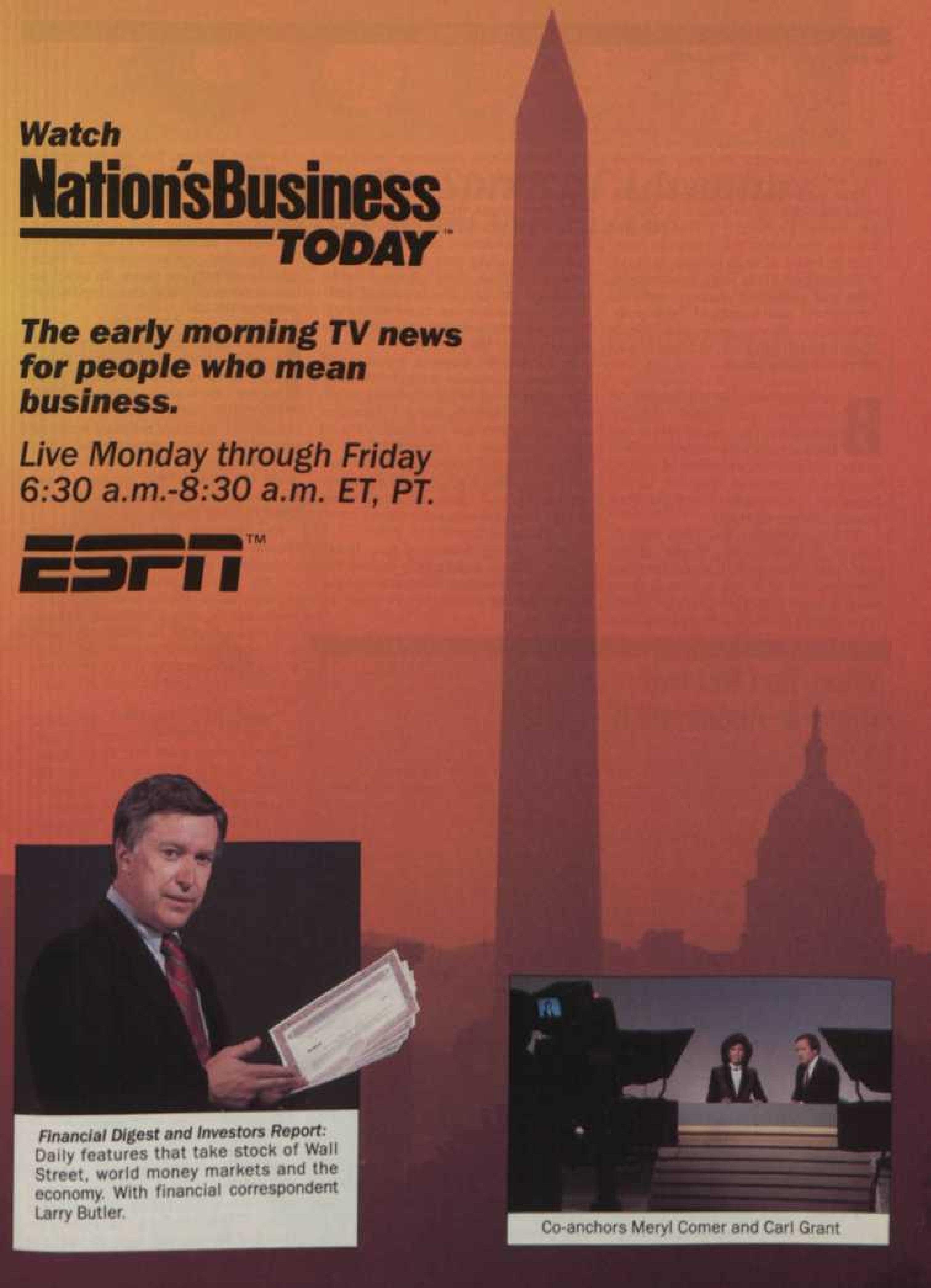
A look at the cost of today's tort system shows it is exacting a high monetary price, often at the expense of the individuals it is supposed to help. A new Rand Corporation study finds plaintiffs received only about half of every dollar paid in tort cases in 1985. The remaining 50 percent of the $28 billion to $35 billion price tag for last year's tort litigation was eaten up by the civil justice system in legal fees, court costs and other expenses.

Although many states reformed their tort laws this year, the insurance industry says those actions will not necessarily produce immediate and major solutions to the liability problem. For one thing, the industry says, few states have enacted comprehensive changes. Most states limited their actions to some small aspect of reform. "Only five states have enacted significant, across-the-board tort reform that covers most—if not all—of the major issues," says the Alliance of American Insurers' O'Day. These are Connecticut, Colorado, Michigan, New Hampshire and Washington.

Even so, there has been some response to tort reform from a few insurance companies. For example, Fireman's Fund Insurance Company says it will start to sell insurance in Washington State for small and medium-sized municipalities, professional day care centers and school districts. Over the last few years, Fireman's Fund considered these areas uninsurable. The company also announced a freeze on commercial general liability insurance base rates for one year in Washington until more is known about tort savings. The state's new law modifies joint and several liability.

In Connecticut, the Hartford Insurance Group, in response to tort law changes, reduced general liability insurance rates up to 10 percent for most of 94 municipalities it insures in the

Thousands of the nation's schools find themselves caught in the liability squeeze. Many offering sports programs like soccer continue to face the prospect of higher insurance rates at renewal time.



Co-anchors Meryl Comer and Carl Grant

state. Connecticut's law also modifies joint and several liability.

Four major insurers agreed to again write municipality insurance in California, where the country's first referendum on the crisis took place in June. Citizens voted, 62 to 38 percent, in favor of Proposition 51 to limit noneconomic (pain and suffering) damage awards. Commercial and municipal liability insurance also became more available in Alaska and New York in response to reforms in those states.

But little relief in availability of directors' and officers' liability insurance has resulted so far from a recent law change in Delaware, where a large number of companies are incorporated. The law allows Delaware corporations to limit personal liability of their directors.

"The marketplace has been restrictive in directors' and officers' insurance," says George E. Corde, executive vice president of Frank B. Hall & Company, a large insurance broker. "There are a limited number of companies willing to write this insurance, rates are very expensive, and the situation won't change in the immediate future."

In some cases, states have coupled civil justice reform with tighter regulation of the insurance industry—a trend that will continue next year as trial attorneys beef up their efforts to sidetrack tort reform. The impact of additional regulation on their industry, insurance companies charge, will simply aggravate the problem.

In Florida, for example, a number of insurance companies stopped writing new commercial liability policies in response to a recently-enacted insurance and tort reform law that includes a 40 percent rollback in commercial and liability insurance premiums for the last quarter of 1986. More than 20 insurance companies and three national trade groups have asked a state circuit court to overturn the law.

Leon County Circuit Court Judge Charles Minor temporarily halted the rate cut but ordered insurance companies to put the money in an escrow account.

In West Virgina, five insurance companies notified thousands of physicians that their malpractice coverage would be canceled after a law was passed that placed new pricing and underwriting regulations on insurers in the state. It also included provisions curbing damages in malpractice cases. To avoid an insurance crisis, the state legislature amended the law.

In the federal arena, the drive continues for a product liability law. Legislation that cleared the Senate Commerce Committee would limit noneconomic damage awards in product liability cases but maintain joint and several liability for economic damages. Final passage this year is doubtful because not enough time remains for the House to take action even if the full Senate passes the bill.

One measure that stands a better chance of enactment this year is an amendment to the Risk Retention Act of 1981. Already passed in the Senate, the legislation would allow small firms, professionals, municipalities, schools and others unable to obtain insurance to form collective groups to buy general liability coverage. The current risk retention law is limited to product liability insurance.

The tort reform drive will continue to pick up steam in the months ahead. "There's much work left to be done," says Richard B. Berman, executive vice president, public affairs and human resources, S&A Restaurant Corporation, and chairman of the U.S. Chamber's Civil Justice Action Group.

In states that allow them, ballot initiatives are likely. In Arizona, for example, needed signatures have already been obtained for a November 4 referendum on repealing the state's constitutional prohibition against any limitations on civil damage awards. Montana voters will consider a referendum that would grant legislative authority to establish limits on liability.

Momentum will continue to build in a number of states for insurance reforms that include imposing tighter restrictions on insurers' cancellation and renewal of policies, permitting creation of joint underwriting associations and allowing group insurance of commercial liability risks.

The tort reform campaign will also go back to states that addressed only one or two issues. O'Day of the Alliance says, "There's a long hard struggle ahead of us—we still have 45 states to go." NB

What Tort Reform Aims To Accomplish

Proponents of civil justice reform believe that changes in state tort laws are needed in order to bring about an end to the liability crisis. A major aim is a return to a negligence or fault-based liability standard, which once was the traditional basis for recovery in tort cases. Recently, however, courts have been holding defendants with monetary resources liable when little or no fault can be attributed to their conduct. Supporters are pushing for a comprehensive approach to reform which includes most of the following six elements:

- Limit "joint and several" liability. In most states, when a plaintiff proves he was injured by the acts of several defendants, each is liable for the plaintiff's injuries. If one defendant cannot pay his share of the award, the other defendants—especially those with the "deepest pockets," but not necessarily the greatest fault—must pay this amount in addition to their own shares.

- Limit "pain and suffering" (noneconomic) awards. Courts often make awards to plaintiffs for physical pain and mental anguish, in addition to compensating them for economic losses such as medical expenses.

- Limit punitive damages awards. These awards are granted in addition to economic awards as a way to punish defendants.

- Limit contingency fees in which plaintiffs' attorneys receive a fixed percentage of clients' total awards, usually 30 to 40 percent but sometimes as high as 50 percent.

- Limit the "collateral source" rule. This rule says the defendant cannot benefit from the fact that the plaintiff may have been paid from another source such as medical insurance for his economic damages.

- Limit lump-sum payments—allow periodic payments. Losing defendants have been required to pay all of the plaintiffs' economic damages in a lump-sum payment.

(I)

(A)

(B)

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It's Your Money

Relying on patriotism and investment interest, the U.S. government is again minting and selling gold coins.

By Ray Brady

When it comes to buying coins," says Joel Coen, a Manhattan coin dealer, "the naiveté of the American people is astonishing." But Coen, a one-man crusade against the phoniness that he says infests much of the coin trade, cannot keep a certain excitement out of his voice when he talks about an event scheduled to take place this month. For the first time since 1933, the United States will be producing and distributing general circulation *gold* coins.

Yes, gold. The same stuff Washington decided to swear off minting in the early '30s. Through a variety of retail outlets, it will be selling gold bullion coins carrying \$50, \$25, \$10 and \$5 denominations. Although they will be considered "coin of the realm" and can be used as legal tender, resist the temptation to do that. They will be valued according to the gold content (at this writing, gold's price is around \$360 an ounce), so the full one-ounce \$50 coin will actually be worth much, much more than its face value.

The fact that the United States is issuing the coins is expected to spark intense interest. Notes Luis Vigdor, vice president of Manfra, Tordella & Brookes, a major coin and bullion dealer in New York: "It will bring a lot of people to the market who may never have bought a piece of gold before."

Public interest in gold and gold coins has fizzled ever since the heady days when inflation kept sending gold prices up, up, up. When inflation dwindled, so did the desire to own gold as a hedge against inflation.

Inflation alone cannot be blamed for the demise of gold's popularity. Just last year, bullion coins got a second blow—this time political. On Oct. 1, 1985, as part of his program of limited sanctions against South Africa, President Reagan halted imports of Krugerrands, a favorite among American investors. The distribution of the coins shriveled away to virtually nothing, and dealers say that in some cases the coins can now be purchased for less than the value of the gold in them. At one point, 5.3 million Americans owned 14 million Krugerrands—an investment experience that presumably has left them with a bitter taste in their mouths.

Ray Brady is the business correspondent for CBS News.

Its face value will be \$50, but the gold in this new U.S. bullion coin will actually be worth many times that amount.

After the Krugerrand ban, "Congress got interested in the idea of marketing a gold coin here," says Michael Brown, a spokesman for the U.S. Mint. The new coins will carry a kind of patriotic appeal. The gold to make the coins will come strictly from American mines (foreign coins, except for Canada's Maple Leaf, might contain some South African gold), and the proceeds will help reduce the federal deficit.

"We hope to sell 2 million ounces of gold the first year," says Brown.

There is, however, stiff competition for coin buyers' dollars, principally from the Maple Leaf. The ill-fated Krugerrand once outsold it by a margin of nine to one. Right now, the Maple Leaf is believed to hold about 65 percent of the worldwide market for bullion coins.

Investors can also choose among such other bullion coins as the Austrian 100 Corona, the Mexican 50 peso and—an up-and-coming star—the Chinese Panda.

Minted in Shanghai, the Panda comes in sizes ranging from 1 ounce on downward (roughly the same as some of the other bullion coins). It has, in the words of one dealer's sales brochure, an "adorable design," consisting of a panda on one side and on the other an engraved design of Beijing's Temple of Heaven, one of the architectural wonders of China.

From an investor's point of view, the Panda has also been something of a wonder. When the coin first came out in 1982, its price was about \$425. Buyers recently were bidding about \$1,550 for that issue. Subsequent issues have not done quite as well; the 1984 Panda has a bid price in the neighborhood of \$775. The 1986 coin is selling for about \$400.

How will the American coin fare against the competition? After all, there are a lot of bullion coins around now. Even the Australians are coming up with a series.

Bulls on bullion say that if you study the consumer price index carefully, you can see a few signs that inflation might be coming back. "Some smell of inflation," says Coen, "makes gold coins go up."

Moreover, Coen and many other dealers believe there is a "buy American" atmosphere that will help the coins. "In fact," says Coen, "the U.S. bullion coin will probably put the Maple Leaf out of business. The Canadians are going to have a problem."

But all that glitters is not necessarily gold. Even more than in most fields of investment, it pays to buy coins from known, reputable dealers. Just recently, the Florida comptroller's office put 21 companies in the state under investigation on suspicion of defrauding investors around the nation with coins that were not worth what the telephone salesmen claimed.

In one case, an investor paid \$13,130 for 20 silver dollars. Their real worth: just \$920.

If you take a shine to the U.S. government's bright new bullion coins, make sure that they are what you are buying—and that you are getting them from a reputable dealer at a price just a fraction over the worth of the gold in them.

Buying coins over the phone is commonly done, but do not buy from a salesperson who telephones *you* for a sale. Once you have picked out a dealership, check out its reputation with your bank. Steer clear of any organization with staff members who insist that you pay in cash only, or who will not meet you personally. NB

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PERSONAL

To Your Health

When your stomach talks back to you, it may be making idle chitchat—or it may be saying something serious.

By Norman Brown

Breakfast for Don Shein, a real estate investor and developer in Providence, R.I., usually consists of coffee and Danish, eaten on the run. But his trouble really starts with lunch.

"I'm tempted to have spicy Mexican or Chinese food," he says. "I'm always sorry. Nine times out of 10, I find myself popping Gelusil pills in the afternoon or evening."

Shein is not alone. Executives tend to go to more business lunches and to drink and eat more than they should. They are constantly on the move and this, combined with alcohol and caffeine, puts an enormous stress on the stomach. The result is often acute indigestion, also known variously as dyspepsia, nervous stomach, gas and heartburn.

"Most disorders of the stomach or intestinal tract will cause pain, ranging from mild to excruciating," says Dr. David Taylor, gastroenterologist and author of *Gut Reactions: How to Handle Stress and Your Stomach* (Saunders Press, 1980). "You may also feel bloated, pass embarrassing gas and have diarrhea or constipation. Usually the symptoms will disappear by themselves. But they can be serious."

Heart attack is often mistaken for acute indigestion, for example. Appendicitis may also present itself as severe nausea.

Upset stomach may be the result of gastritis or gastroenteritis, which are inflammations of the stomach or intestinal tract caused by infections, food poisoning or drugs (especially aspirin). Stomach flu, peptic ulcers and gallstones are other digestive system complaints requiring the attention of a physician.

The questions and answers that follow can help you avoid discomfort or determine when you need medical help:

Do you eat when emotionally upset? Anger, resentment or anxiety disrupt stomach contractions (peristalsis) and increase acid secretions, causing the inflammation and pain known as "nervous stomach." Depression, on the other hand, reduces acid secretions, and

ILLUSTRATION: WILLIAM COULTER

food may remain undigested for many hours, causing constipation.

Sometimes exercise—a brief walk, for example—may have a calming effect. If necessary, your doctor may prescribe an antispasmodic or antidepressant as a temporary aid. But avoid frequent use of aspirin, which can add to stomach distress.

Do you eat too fast? Large, disturbing amounts of air may be swallowed when eating rapidly—or while smoking or drinking. According to Dr. Donald O. Castell, chief of the digestive diseases division at the Health Sciences Center in Bethesda, Md., extreme air swallowing (aerophagia) can bring on abdominal pain, breathing difficulty, and what feels like heart pain. He suggests avoiding (1) animated mealtime conversations that lead to food gulping and (2) excessive drinking of carbonated beverages, which "cause 50 to 70 percent of all gas problems."

Do you like foods that don't like you? Dishes that may wreak havoc in your stomach cause no difficulty for someone else. Spicy, fried or fatty foods are common culprits, as are foods with air whipped into them, such as ice cream or mousse.

Does your stomach regurgitate? If so, you may feel a burning sensation behind the breastbone—in other words, heartburn. The culprit could be stress, but chronic heartburn can also have a physical cause: below-normal pressure in the sphincter, a valve-like muscle where the esophagus joins the stomach.

Without adequate pressure, the sphincter fails to close snugly after food passes into the stomach, allowing backward movement of acid (reflux) from the stomach into the esophagus. Smoking and drinking diminish sphincter pressure and increase acid secretion.

Do you often get constipated? "Too many people worry about their bowel movements," says Dr. Robert S. Fisher, gastroenterologist at Temple University School of Medicine in Philadelphia. "We vary a great deal in type of intestine, eating habits, physical activity and life-style, so bowel movements can be perfectly normal without being typical." Constipation can be caused by improper diet, abuse of laxatives or irregular eating habits.

Do you use a lot of antacids? A variety of over-the-counter preparations can ease the discomfort of indigestion. But avoid those containing sodium or aspirin except for occasional use. "Bicarb is quick acting, but its antacid effect is short-lived," says Dr. David Morowitz, gastroenterologist at Georgetown University Hospital in Washington. "Excessive use can lead to the same symptoms for which it was taken."

Is your stomachache serious? People with indigestion sometimes worry that their symptoms mean they have stomach cancer or some other serious disorder. On the other hand, complaints with far more significance are often treated very lightly—with tragic results.

You should see a doctor if you feel tightness or pain in the chest. Surveys of intensive-care units reveal that almost all patients with coronary attacks initially attributed their symptoms to indigestion or gas. Nausea and vomiting after meals can signal gastritis, gastroenteritis or appendicitis. Pain in the upper abdomen may indicate gallstones or a peptic ulcer. NB

Norman Brown is a free-lance writer and former medical editor in Providence, R.I.

PERSONAL

For Your Tax File

When the penalty for error is greater than the error, hope for a sympathetic court; a case of interest defined.

By Gerald W. Padwe, C.P.A.

A Court With A Heart?

An appeals court decision overturned an IRS ruling that levied a penalty greater than the amount of a taxpayer's negligence on the grounds that the tail should not wag the dog.

One of the seemingly endless string of penalties Congress allows the Internal Revenue Service to impose is for negligence; that is, for a position taken on a return that is not reasonably supportable by statute, regulation or court cases. Although this is hardly an everyday penalty, the IRS is not shy in trying to apply it.

The agency also is scrutinizing returns more closely for what sometimes are called aggressive filing positions—cases in which taxpayers test the legal limits of reducing what is owed the government. The penalty has been 5 percent of the *entire* deficiency on the return, even if only a small part of that deficiency is attributable to negligence.

A recent case in the U.S. Court of Appeals for the Sixth Circuit gave the taxpayer a victory that, while appearing eminently fair, may also be technically questionable. A corporation had used the cash method of accounting for reporting taxable income, and the examining agent determined that the company did not meet requirements for use of that method. The IRS changed the return to base it on accrual accounting and claimed a deficiency of $133,000. So far, no negligence claims.

But in addition, the company had deducted $1,100 for personal expenses of two shareholders. The IRS disallowed the deduction, imposed a $500 tax and demanded the 5 percent negligence penalty. Because the statute allows the penalty to be applied on the entire deficiency cited, it amounted to $6,500, even though that was 13 times the tax attributable to the negligently claimed deduction.

The company sought redress in the U.S. Tax Court and failed—that court followed a literal reading of the statute. The Sixth Circuit, however, was substantially more lenient, finding the result "absurd." "We will not let the tail wag the dog," stated the appeals court decision. It limited the penalty only to that part of the deficiency attributable to the negligent action.

ILLUSTRATION: CAMERON GERLACH

It should be noted that both the Eighth Circuit and Second Circuit Courts of Appeal have supported the IRS and Tax Court position on this issue in other cases, though not in such extreme cases as this. Thus, technically, there is a conflict within circuit courts, and the U.S. Supreme Court could be asked to resolve the issue. Since the statute does not grant exceptions for "absurd" cases, a prudent bettor (while applauding the Sixth Circuit decision) might give odds for the IRS.

As a practical matter, we may not have to face many such situations in the future. As this is written, the 1986 tax reform bill has not been approved in final form. When it is, it may well change the rule for deficiencies arising in future years, so that the Sixth Circuit approach will become part of the statute, and negligence penalties will be assessed only on that part of a deficiency attributable to negligent action.

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. For Your Tax File *is an information service for readers. See tax and legal advisers on specific cases.*

"Business" Or "Investment"?

For noncorporate taxpayers, investment interest is subject to substantial limitations on deductibility, whereas business interest is always fully deductible.

A recent legal memorandum from the Internal Revenue Service muddies the waters considerably as to what the distinction between the two kinds of interest is.

Three individuals bought shares in an S corporation for $8 million, paying for them with 15-year installment notes. The three are full-time employees of the corporation; two are officers. Each is an active day-to-day corporate manager.

This would seem clearly to be a business investment.

In deciding whether interest on the 15-year notes is "business" or "investment," the IRS memorandum held that, since the S corporation's stock would be a capital asset, this provided sufficient investment connection for interest payments to be investment interest, subject to all the limitations applying to that category of expense.

It should be noted that the IRS view has been expressed internally only and not yet made the subject of a formal ruling. It is far from clear—particularly under the facts presented—that a court would hold the same view.

Of some solace to taxpayers may be footnote language found in the House Ways and Means and Senate Finance committee reports on the 1986 tax reform legislation.

Both committees' reports, expressing formal congressional intent, note that, "as under present law," installment buying of a general partnership interest in one's business does *not* give rise to investment interest expense. The congressional view is important to small businesses that are structured as partnerships or S corporations, because of similarities in their taxation.

The two positions are not easily reconciled. If the IRS persists in its initial view, litigation will probably be necessary to resolve the question.

THE NATION'S BUSINESS

Where I Stand

Results of this monthly poll on important public policy issues are forwarded to top government officials in the White House and Congress.

1. Drug Screening For Employees?

First Lady Nancy Reagan has urged employers to take greater responsibility in fighting illegal drug use. The Reagan administration is considering proposals to test all federal employees and job applicants. Testing would be done through urinalysis and other means. Critics contend that drug tests violate privacy rights and that tests are unreliable. Unions typically insist that drug testing fall under collective bargaining agreements. Should private employers have the right to require drug testing as a condition of employment or continuation of employment?

2. Capital Bank For Small Business?

Small Business Investment Companies are private firms that provide venture capital to small businesses. Last April Congress ended SBICs' ability to obtain low-interest loans from the Treasury, threatening their survival. Congress would "privatize" SBIC funding by creating a quasi-governmental Corporation for Small Business Investment, a capital bank to raise funds for SBICs. COSBI would receive no federal funds, but Congress would have the option to save it from bankruptcy. While small business groups support the bill, the administration opposes it because of the "bailout" option. Should Congress approve COSBI?

3. Mandated State Insurance Risk Pools?

Ten states have mandated insurance "risk pools" for people who are considered medically uninsurable. Now Congress is considering legislation that would require all states to establish similar risk pools. Those covered would pay premiums up to 1½ times the standard charge. Businesses with 20 or more employees would be required to cover any financial shortfall in the pool. Advocates contend that the business subsidy will be low. Critics oppose risk pools because they are a form of mandated benefit. Should Congress approve a plan that requires business to subsidize state insurance risk pools?

Verdicts On August Poll

Here is how readers responded to the questions in the August issue's Where I Stand poll.

	Yes	No	Undecided
Should Congress retain an independent Small Business Administration?	35%	56%	9%
If tax reform is approved, should there be a five-year moratorium on changes in tax law?	49%	41%	10%
Should Congress approve an extra cost-of-living increase for Social Security recipients?	14%	82%	4%

Send in your vote on the inserted postpaid card. Explanations of your views on any of these questions are also welcome as letters to the Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

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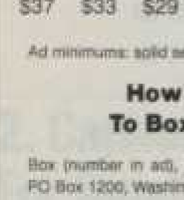

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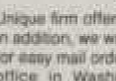

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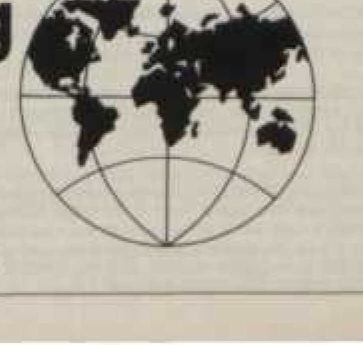

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MANAGING YOUR BUSINESS

Direct Line

Promotion Ideas

I have recently opened a welding and fabricating shop. I placed a listing in the Yellow Pages and sent out flyers to businesses that could use my services. So far, this has not generated much interest. What can I do?
K.D., Henrietta, N.Y.

It is not enough to advertise and wait for the phone to ring. You must know what your market is and who makes the decisions. Edgar M. Feathers, retired coordinator of product planning for Eastman Kodak in Rochester, N.Y., advises evaluating your mailing list to make sure you are sending those flyers to the right people.

You should follow up the flyers with personal contacts, Feathers says. Telephoning is fine, he says, but once you have identified hot prospects, visit them.

Another good way of drumming up business is to have a booth at local trade shows. Feathers also suggests producing a promotional item like a printed calendar or a paper weight with your firm's name and address on it.

Feathers is a volunteer with the Service Corps of Retired Executives, affiliated with the Small Business Administration. There are SCORE offices throughout the country. In Rochester, which is near Henrietta, more than 100 retired executives like Feathers offer for free the benefit of their years of experience. In addition to visiting businesses on request, they stage workshops on small business management. For an appointment with a SCORE professional in the Rochester area, write to the Small Business Administration, 100 State Street, Room 601, Rochester, N.Y. 14614; or call (716) 263-6473.

Asbestos Concerns

My business is moving, and I think I have found just the right building. Its location, size and price are in the ballpark, but something is worrying me. Suspicious-looking black fibers are coming up from the floor tiles. Could this be asbestos? If so, do I have to take apart the entire floor in order to get rid of it?
C.T., New York

Asbestos, known to cause cancer, was commonly used in buildings for insulation and soundproofing. Since asbestos is most often white and fluffy, those black fibers are probably harmless. Health Scientist Edward Stein, at the Occupational Safety and Health Administration, points out that asbestos does not burn under a match—a good test. You can also use a free, on-site consultation service funded by OSHA. If the material is indeed asbestos, you must have qualified professionals either rip out the material or contain it so fibers are not released into the air.

Oriental Directions

Where can I find the names of U.S. companies in Taiwan?
H.C., Alhambra, Calif.

Contact Herbert Gale Peabody, Executive Director, American Chamber of Commerce, P.O. Box 17-277, Taipei, Taiwan.

International Updates

A number of international business travelers have asked my company where they can get research done on countries on their itineraries. In addition to standard statistics, such as population and area, they want information on who key government officials are and a short history of the country.
M.Y., Portland, Me.

Have them contact the embassies of the countries on their itineraries. The U.S. Government Printing Office publishes a quarterly directory of embassies and their personnel, entitled *The Diplomatic List*. For a year's subscription, send $14 to the U.S. Government Printing Office, Washington, D.C. 20402-9371. Specify stock number 744-004-00000-4.

How To Ask

Have a business-related question?

Write to: Direct Line, NATION'S BUSINESS, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

Filling In The Holes

A jack of all trades became a master of one after he found an unfilled need—a "market hole"—in home building.

By Chris Miller

Walton Chapman readily admits that his temperament is ill-suited for life in the entrepreneurial fast lane. Although he says he is "an entrepreneur in spirit," he adds: "There's an element of risk involved in being in business for yourself that I find uncomfortable."

Those comments come from a man who built a highly successful home-construction company from scratch and is today considered the industry leader in his home area of Santa Fe, N.M.

Walton Chapman Builders began as a four-man operation with a garage for its headquarters office. The founder, now 59, has built it into a company with more than 80 employees and $10 million in annual sales.

How has a man with such reservations about the entrepreneurial world moved so far so fast in a highly speculative field? Richard Enrietta, vice president of the firm, provides this explanation: "He won't jump into anything until he has researched it to death."

Although Chapman has applied that philosophy in building his business, it was a somewhat impulsive decision that brought him into homebuilding in the first place. That decision came at the end of a rather circuitous career path.

At 16, Chapman had enrolled in the engineering program at the University of Texas, accelerating his high school education to try to get his college diploma before becoming eligible for service in World War II. His family lived in Fort Worth.

He was drafted in his second year at college, however, and after a two-year tour with the Marines, he came home to find a glut of engineers in the postwar marketplace. He enrolled at Texas Christian University in 1947, changing his major to psychology.

By this time Chapman had married. His wife, Joan, gave birth to the first of their four children a week after he received his degree from TCU. To support his family, Chapman took a succession of jobs in the Fort Worth area, none of them in engineering or psychology. During the next seven years, he worked as an inspector at a bomber plant, an insurance broker, a truck salesman and finally as a sales manager in a plastics manufacturing firm.

It was with this mixed bag of experience and education that Chapman accepted an offer from his brother-in-law, Ed Leslie, and switched careers yet again. He became vice president in charge of marketing for Home Planning & Development, a Roswell, N.M., building company Leslie owned.

Caution and innovation have been the foundation of Walton Chapman's New Mexico building business. Here he is at the Park Plazas project, a planned community whose success has led to other successes. Once he had four employees. Now: 80-plus.

PHOTOS: TONY O'BRIEN—PICTURE GROUP

The move proved to be another learning experience, Chapman recalls. "I had worked a little as a mason's apprentice when I was young, but I really didn't know the nuts and bolts of building a house. My first few months were an education."

He soon got the hang of the field work, and then some. In a small company he was forced to wear many hats. "For the first few years, I did everything under the sun," he says. "Accounting, drafting, prospecting for sites, advertising, greeting customers at model homes, negotiating with federal agencies for project approvals—everything. In a short time, I got a feel for all the varied tasks that go into building and marketing a home."

The company expanded operations from Roswell to Albuquerque and Los Alamos. Chapman was busier than ever, dividing his time among the three New Mexico cities to coordinate project finances.

"We had more sales than we knew what to do with," he says. "I needed to

Filling In The Holes

spend three days a week in each of the three sites. For a stretch in the early '60s we used to brag that we'd work 363 days a year. We'd take Christmas day off and half a day on Thanksgiving."

The strain of this work schedule caught up with Chapman after he decided in 1964 to move his family from Roswell to Los Alamos to simplify the travel demands of his job. "I had to register my daughter for high school, and it occurred to me as I was waiting to file the forms that I remembered her best when she was in the second grade," he says. "That's when I started thinking about going on my own. Eventually, I began researching to find a market hole in New Mexico that needed filling." When he found one, he opened Chapman Builders.

Market "holes," as Chapman explains, are "areas of the existing market that do not respond to a perceived need. The holes appear because there's a problem that keeps people from doing business on a given site or in a given price range. If you can solve the problem that creates the hole, you've got an exclusive grip on a nice piece of the market. When you start small, as we did, with little capital or land, the market hole strategy is a good way to go."

Chapman shies from delegating all responsibility. "Personal involvement is essential in running a business," he says. "The better you know your work, and the more you look at it, the better results you get." He is discussing floor plans with designer Randy Scrafford.

The hole that Chapman uncovered was in middle-price-range housing in Santa Fe, New Mexico's capital. At the time, city construction ordinances made it more cost effective to build on acre lots than on half-acre lots. Builders had to provide pavement, curbs, gutters and sewers for half-acre sites; on acre sites, only curbs and septic tanks were required. With the added construction costs, half-acre housing approached the $30,000 price tag common at the time for acre housing.

The next-lowest expedient price range for builders was the $20,000-and-under market, which was dominated by clustered, five-unit-per-acre developments. Chapman saw the difference as a $10,000 hole in the market.

"We scoured Santa Fe for scattered half-acre lots that we could build custom-designed single units on, and we negotiated like the devil to get exemptions from some of the more costly ordinances," he says. Result: homes that sold for $25,000. "We did custom work like that for about four years," Chapman says. "It was a good foothold."

Chapman Builders confirmed its hold on the middle-range housing market in Santa Fe in 1976 with the Park Plazas project, one of the city's first planned unit developments. PUDs—high-density, preplanned communities operated by autonomous homeowner associations—are relatively inexpensive to develop because of commonly owned open space and amenities.

The 458-unit project is still in its final stages, but its initial success opened the door to further opportunities. In 1982, Chapman's company garnered national recognition when the Department of Housing and Urban Development chose it to undertake a demonstration project for the Joint Venture for Affordable Housing, a federal program to help cut housing costs through innovative techniques.

Chapman's son Michael worked for his father's company at the time. (Now 33, he is a successful builder in his own right in the Santa Fe area. Another son, William, 25, has joined the senior Chapman's firm.) Mike had been involved in low-cost housing research through the National Association of Homebuilders, and that activity was an asset in securing the Housing and Urban Development Department's blessing for Fairway Village, another Chapman Builders PUD project. With the federal department's backing, the Chapmans were able to persuade Santa Fe's city fathers to approve several cost-cutting modifications in the local building code for Fairway Village.

Plastic gas lines and rolled curbs were allowed for the first time, and requirements on the number of manholes and street widths were relaxed, bringing the cost of single-family units down to the $70,000 price range.

Currently on the board of directors of the U.S. Chamber of Commerce, Chapman has held numerous positions in Santa Fe civic organizations. His public service was recognized in 1977, when the city chamber of commerce named him "Santa Fean of the Year."

Despite his business success, Chapman sometimes wonders if he would have been happier in a different line of work. "I've thought about being a teacher," he says. "Or an inventor, maybe. Then again, if you run your own business, you have to do a little bit of both those things every day." NB

COMMENTARY

Congressional Alert

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members of Congress should be sent either to U.S. Senate, Washington, D.C. 20510 or to U.S. House of Representatives, Washington, D.C. 20515.

ISSUE	BUSINESS IMPACT	BUSINESS MESSAGE
Jobs Tax	If Congress approves a measure that may be part of its budget deficit reduction legislation, businesses will pay an extra $2.5 billion into the federal unemployment compensation trust fund. A special "jobs tax," enacted in 1976 to repay the trust fund for extended unemployment benefits, is to expire next year after the debt is repaid. But it may be extended for two years to produce a surplus in the trust fund.	Members of the House and Senate: Oppose extension of the "jobs tax." Businesses will have paid their debt to the trust fund and should not be subjected to further taxation simply to meet budget deficit reduction goals. Do not balance the federal budget at employers' expense. Reduce unnecessary spending rather than increase taxes on businesses, which need to grow to provide more jobs.
Risk Pools	A measure moving through Congress as part of budget deficit reduction legislation would require all employers of 20 or more employees to pay for any shortfall in health insurance risk pools that states would be directed to establish to cover the medically uninsurable. Premiums would be set at no more than 150 percent of the average health insurance premium in each state.	Members of the House and Senate: Oppose this new financial burden on businesses. This significant change in employers' liability should not be considered as part of unrelated budget deficit reduction legislation. Health insurance coverage of the medically uninsurable and the financing of such coverage require further study and separate consideration by Congress.
Parental/Disability Leave	Legislation being considered by Congress could result in efforts to require employers to pay for family and disability leave. A measure mandating such leave on an unpaid basis would establish a federal commission to recommend ways to compensate employees who take up to 18 weeks of parental/elderly care leave and 26 weeks of disability leave.	Members of the House and Senate: Oppose legislation that imposes federal requirements on employers in designing employee benefits packages. Employers must retain flexibility to offer benefits that they can afford and that their employees desire. The right to manage is at stake.
Comparable Worth	A House-approved comparable worth study of the federal work force could be the first step in subjecting business to a pay system based on an arbitrary evaluation of the worth of a job. Outside evaluators would determine the "intrinsic" value of different jobs and set wages for each.	Members of the Senate: Oppose imposition of a comparable worth pay system on workers and employers. Inconsistent and arbitrary judgments of outside evaluators must not be substituted for the marketplace or allowed to counteract advances in merit pay and promotion systems.
Product Liability	Product liability laws holding all defendants fully liable for all damages, regardless of fault, and huge jury awards to plaintiffs have produced a crisis in the business community. Escalating insurance costs are hurting business.	Members of the House and Senate: Product liability reform legislation must include repeal of joint and several liability and the return to a fault-based system. These two provisions will go a long way toward assuring that insurance is available and affordable.
Trade Reform	Trade-restrictive proposals that are being considered by various Senate committees could lead to severe damage to the U.S. economy and the world trading system.	Members of the Senate: Trade legislation should be designed to improve U.S. international competitiveness, expand world trade, improve U.S. companies' access to foreign markets and reduce foreign unfair trade practices.

COMMENTARY

Editorials

Pressing the cause of small business; finding the means to curb drug abuse among employees.

Converting The Goals Of Small Business Into Realities

"We came to the conference with an agenda . . . to take small business into the 21st century."

That is how Mary Del Brady, owner of a consulting business in Pittsburgh and a delegate to the White House Conference on Small Business, summed up the ambitious—and realistic—goals of that historic meeting.

The recommendations adopted by the delegates comprise a charter that, if implemented, could guide American enterprise well into the new century. (For details on the conference recommendations and what is being done to implement them, see the special report beginning on page 37. It is designed to be easily removed and kept for reference.)

Small business, acting through its representatives at the conference, says it wants the federal government to concentrate more on establishing an economic environment in which enterprise can thrive—and less on attempts to control the day-to-day activities of the marketplace. Key recommendations, for example, call for fiscal policies that encourage growth and for an end to the current trend of mandating what benefits employers must offer to workers.

It should be noted that the conference has compiled a list of policy goals that would not only benefit small business, but would also make significant contributions to the health of all sectors of the economy.

The recommendations of the conference have been turned over to Congress and the executive branch, and the delegates have returned to their homes and businesses. But the work of the 1986 White House Conference on Small Business has just begun. The real challenge lies in translating its recommendations into the laws needed to put those recommendations into effect.

How can that be done? Senate Majority Leader Robert Dole (R-Kans.) provides a simple formula: "You go out and organize and organize and organize." He suggested that course as he formally accepted the conference recommendations. The senator added an equally important consideration: "What you finally get done depends on how much appropriate pressure you apply."

Some delegates have already begun the follow-up work needed to turn the conference recommendations into reality, and all should do so. They can work through business organizations at the local, state and national level to bring pressure to bear on members of Congress to consider the conference recommendations. They can write personal letters and make telephone calls to the offices of the lawmakers and, when those elected officials are in their home states and districts, make personal contact with them.

The work of the 1986 White House Conference on Small Business has just begun. The real challenge lies in translating its recommendations into the laws needed to put those recommendations into effect.

The political calendar offers an opportunity to begin the process in a particularly effective way. A new Congress will be elected November 4. Everyone interested in the health of the nation's smaller businesses—owners, managers and employees—has time to determine the views of the candidates on the issues raised in the White House Conference's final recommendations.

Once those views are determined, voters concerned about improving the climate in which American enterprises must operate should have no difficulty in choosing between the opposing office-seekers.

Leading The Fight Against Drug Abuse

Business is in a paradoxical position relative to the problem of drug abuse.

While employers are among the principal victims of drug abusers, they also hold more leverage than any other component of society in efforts to curb the problem.

As the article beginning on page 18 points out, drug abusers victimize their employers through activities that include theft of company property, low productivity, drug sales to other employees, higher absenteeism, and medical costs and accidents that not only threaten co-workers but open the company to lawsuits.

Workers who abuse drugs often steal from their employers to raise money to finance drug purchases. As the habit intensifies, the thefts can become larger and more numerous.

The other side of the ledger is the growing recognition that, while drug users will often risk loss of family, home and reputation, not to mention arrest and jail, the threat of losing a job is often an effective—and sometimes the only—deterrent to which they will respond.

For that reason, business is gaining increasing recognition as the best hope for making substantial inroads against the drug problem. Employers can, among other things, test job applicants and employees for drug use and offer rehabilitation programs.

For employers, the immediate problem is the threat of the damage that drug abusers can cause in the workplace. Employers are also concerned, of course, about the larger problem—the threat that unchecked drug abuse will eventually pose to the physical and moral health of the nation. A single employee deterred from drug use by a company's refusal to tolerate such conduct represents a step toward the national goal of eliminating illegal drugs.

A company that joins the battle against drug abuse will be making a vital contribution to our entire society, in addition to eliminating problems on its own doorstep.